EXECUTIVE OFFICE of HUMAN SERVICES

OFFICE of AUDITING and ACCOUNTS

FY 1987

ANNUAL LEGISLATIVE REPORT

June 30, 1987

EXECUTIVE OFFICE of HUMAN SERVICES

Michael S. Dukakis
GOVERNOR

Philip W. Johnston
SECRETARY

OFFICE of AUDITING and ACCOUNTS

Bruce F. Blaisdell
DIRECTOR

1 Ashburton Place Room 1109 Boston, Massachusetts 02108 (617) 727-7600

The Commonwealth of Massachusetts
Executive Office of Human Services
One Ashburton Place, Room 1109
Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR
PHILIP W. JOHNSTON
SECRETARY

June 30, 1987

The Honorable Patricia McGovern
Chairman
Senate Committee on Ways and Means
State House
Room 212
Boston, MA 02133

Dear Chairman McGovern:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Senate Committee on Ways and Means in accordance with the requirements of Chapter 199, Acts of 1987, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, and to the office of the state auditor a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

As you know, the governor has made a substantial commitment to our vulnerable and needy citizens. The human service providers are an essential component of the service delivery system. This administration has also made a major commitment to management reforms to ensure the performance of human service providers in these state-funded contracts.

The Office of Auditing and Accounts serves an important function, in reviewing the results of implementation of such initiatives. It is one of several ways of evaluating systemic issues and suggesting corrective action. The existence of a professional audit function like EOHS/OAA also serves as an effective tool for monitoring compliance with statutes, regulations, and proper recordkeeping practices. The function of EOHS/OAA is part of our overall commitment to ensuring the continuing integrity of the purchase of service system.

I believe this report demonstrates that commitment. Where administrative deficiencies have been identified, our agencies have worked closely and cooperatively with the provider community to rectify them. In those few instances in which any inappropriate activites have been discovered, we have acted promptly to address them.

As you will see, the cases and statistics included in this report look back at contracting activity between fiscal years 1983 and 1986. As a result of similar findings in earlier audit reports and other studies, EOHS has initiated a number of management reforms in the purchase of service system over the past few years. These initiatives have been implemented beginning in FY 1986, and continuing in FY 1987 and future years. Audit reports of contracting activity in FY 1987 and subsequent years will appear in future legislative reports, and will include a review of systemic improvements resulting from these initiatives.

Should you, or members of your staff, have any questions regarding this report, or a specific audit, please contact Bruce F. Blaisdell, Director, Office of Auditing and Accounts, at 727-7600, extension 350.

Sincerely,

Philip W. Johnston
Secretary

PWJ/BFB/lj

The Commonwealth of Massachusetts
Executive Office of Human Services
One Ashburton Place, Room 1109
Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR
PHILIP W. JOHNSTON
SECRETARY

June 30, 1987

The Honorable Richard Voke
Chairman
House Committee on Ways and Means
State House
Room 237
Boston, MA 02133

Dear Chairman Voke:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the House Committee on Ways and Means in accordance with the requirements of Chapter 199, Acts of 1987, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, and to the office of the state auditor a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

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Secretary

PWJ/BFB/lj

The Commonwealth of Massachusetts
Executive Office of Human Services
One Ashburton Place, Room 1109
Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR
PHILIP W. JOHNSTON
SECRETARY

June 30, 1987

Ms. Katharine Pell
Chairperson
Rate Setting Commission
Two Boylston Street
Boston, MA 02116-4704

Dear Chairperson Pell:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Rate Setting Commission in accordance with the requirements of Chapter 199, Acts of 1987, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, and to the office of the state auditor a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

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Should you, or members of your staff, have any questions regarding this report, or a specific audit, please contact Bruce F. Blaisdell, Director, Office of Auditing and Accounts, at 727-7600, extension 350.

Sincerely,

Philip W. Johnston

Philip W. Johnston
Secretary

PWJ/BFB/lj

The Commonwealth of Massachusetts
Executive Office of Human Services
One Ashburton Place, Room 1109
Boston, Massachusetts 02108

MICHAEL S. DUKAKIS
GOVERNOR
PHILIP W. JOHNSTON
SECRETARY

June 30, 1987

Mr. A. Joseph DeNucci
State Auditor of the Commonwealth
State House
Room 229
Boston, MA 02133

Dear Auditor DeNucci:

The following report of the Executive Office of Human Services, Office of Auditing and Accounts, is respectfully submitted to the Auditor of the Commonwealth in accordance with the requirements of Chapter 199, Acts of 1987, Item 4001-0010, which provides, in pertinent part: "... that the office shall submit semi-annually to the house and senate committees on ways and means, to the rate setting commission, and to the office of the state auditor a report on the audits performed, including the number, status, and summary of such audits, and the status of such responses as are requested from government agencies and human service vendors ...".

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Should you, or members of your staff, have any questions regarding this report, or a specific audit, please contact Bruce F. Blaisdell, Director, Office of Auditing and Accounts, at 727-7600, extension 350.

Sincerely,

Philip W. Johnston
Secretary

PWJ/BFB/lj

INDEX

EXECUTIVE OFFICE OF HUMAN SERVICES

OFFICE OF AUDITING AND ACCOUNTS

SEMI-ANNUAL LEGISLATIVE REPORT

FISCAL YEAR 1987

SECTION I -- OVERVIEW

The Executive Office of Human Services, Office of Auditing and Accounts (EOHS/OAA), is located in the cabinet secretariat which oversees sixteen line agencies, including major purchasing agencies (e.g., DMH, DMR, DSS, DPH) and the Rate Setting Commission.

During fiscal year 1987, several significant developments occurred affecting EOHS/OAA:

- EOHS/OAA became fully staffed at the approved level of 32 positions. Beginning in FY 1988, this will increase the operational capacity of the unit. In the short run, however, the impact of positions added was more than offset by a reduction in funding in subsidiary account '03' for contracting with CPA firms to conduct audits (reduced from $370,000 in FY 1986 to $90,000 in FY 1987).

- Additional staff necessitated increasing office capacity. Because the majority of positions are field audit staff, engaged in daily travel to audit sites around the Commonwealth, a field office was determined to be more appropriate than additional office space in Boston. Beginning in November 1986, approximately 18 EOHS/OAA staff have been assigned to a building belonging to the Commonwealth, under the jurisdiction of DMH, at the former Foxboro State Hospital. This 100-year-old building had been vacant for many years, and with ongoing renovations, it is gradually being converted to acceptable professional office space. This was deemed to be more cost-effective for the Commonwealth than rental of an equivalent amount of new space at market rates.

- During FY 1987, EOHS/OAA developed a new audit program, and subsequently initiated five program results audits, intended to measure performance by EOHS purchasing agencies in the procurement and contracting process for FY 1986. Auditees included three DMH Area Offices, one DSS Area Office, and one DSS Regional Office. Once

completed, these cases will be resolved in the same manner as other audits conducted by EOHS/OAA (see Section II, Summary of Resolution Procedures), and the results will be reported in the December 31, 1987 EOHS/OAA Legislative Report. In addition, during FY 1988, and subsequent years, EOHS/OAA will conduct such audits of procurement and contracting activity for FY 1987, and for subsequent fiscal years.

o EOHS/OAA began resolution of audits pursuant to the present Audit Resolution Policy in the middle of FY 1985. As a result of responses received to several hundred audit referrals to EOHS purchasing agencies (e.g. DMH, DSS, DPH) and the Rate Setting Commission, EOHS has concluded that revisions to the Audit Resolution Policy are necessary (See, e.g., Sections V - VIII). In particular, it is apparent that under the present policy, accountability for addressing issues of the accrual of "surplus funds" and/or "deficits", so-called, in state contracting is unclear. This issue has also been cited as requiring futher definition by other parties, including the House and Senate Committees on Ways and Means. EOHS/OAA has proposed a revised Audit Resolution Policy, intended to clarify responsibility for resolution of this and other significant issues which are noted in audit reports, in a manner consistent with legislative intent. The revised Policy was also intended to be consistent with the EOHS Fiscal Procurement Resolution Policy (a.k.a., the "Re-Use and Recovery Plan") recently promulgated for FY 1988 contracting. This proposed revision is currently in draft form, for discussion by interested parties. EOHS/OAA will implement a revised Audit Resolution Policy during FY 1988.

o Over the past two-and-one-half years, EOHS/OAA has recovered, or directed its agencies to recover, <u>$1,897,276</u> in funds as a result of audit findings. Section V of this Report provides current information regarding the status of recovery activities.

Major office functions include:

1. Auditing purchase of service providers. EOHS/OAA has developed financial and compliance audit guides which specialize in the auditing of non-profit corporations. These guides are consistent with professional auditing standards set forth by the US General Accounting Office. EOHS/OAA has developed the capacity to perform a multi-level audit program which includes: (1) a pre-audit survey and management review; (2) a limited scope financial and compliance audit; and (3) a full scope financial and compliance audit.

2. Auditing human service agency facilities and functions. EOHS/OAA has conducted, as needed, reviews of particular entities and functions within EOHS and its agencies. Furthermore, as noted above, in FY 1987, EOHS/OAA began a regular series of program results audits, reviewing purchasing agency contracting processes and practices, to ensure compliance with applicable laws, regulations and policies.

3. Auditing federal block grants (Alcohol, Drug and Mental Health, and Preventive Medicine) consistent with OBRA requirements.

4. Coordinating EOHS agency audit activity to ensure that duplication of audit resources does not occur. This includes maintaining a regular dialogue with the Auditor of the Commonwealth, to coordinate related activity.

5. Resolving all types of audit reports to ensure that issues documented during audit are corrected by management. This includes reporting all pertinent information to the legislature, administrative officials, and other appropriate parties. Staff resolve audit reports prepared for EOHS/OAA by its own field audit staff and by contracted CPA firms, and direct and coordinate the resolution by EOHS agencies of audit reports prepared by other governmental auditors (e.g., Auditor of the Commonwealth). All such activity is in accordance with established EOHS audit resolution policies.

SECTION II

SUMMARY OF RESOLUTION PROCEDURES

This Semi-Annual Legislative Report primarily summarizes audit resolution activity during the six months ended June 30, 1987.

Briefly, EOHS/OAA resolution policies dictate that audit reports and the resultant resolution recommendations be distributed to responsible government officials and organizations that possess the statutory or regulatory authority to take corrective administrative actions.

In order to insure the implementation and maintenance of sound management practices, EOHS/OAA requires that the primary EOHS purchasing agency and the provider organization, enter into a written plan of action to correct administrative deficiencies (e.g., poor or non-existent books or records, lack of internal controls, inadequate safeguards of client funds, etc; see Section VIII).

In addition, audit issues which affect the rates of reimbursement paid to provider organizations are routinely referred, as a result of EOHS/OAA audit resolution policy, to the Rate Setting Commission for rate redeterminations (e.g., overbilling, underspending, undocumented expenses, over and/or underutilization; see Section VI). Other matters are referred to the state or federal governmental agency which has jurisdiction over the issue. As noted above, EOHS/OAA has proposed revisions to its present policies which will be implemented during FY 1988.

A summary of present EOHS/OAA resolution policies include the following:

	Conditions	Referred To
1.	Administrative Deficiencies	EOHS Purchasing Agencies
2.	Conflict of Interest	State Ethics Commission
3.	Disallowed Costs/Expenses	Rate Setting Commission/ EOHS Purchasing Agencies
4.	Failure to File Documents Required by Law	Secretary of State Attorney General State/Federal Taxing Agencies
5.	Failure to Make Payments Required by Law	State Taxing Agencies Federal Taxing Agencies Attorney General

6.	Fraud	Attorney General
7.	Misconduct of State Employee	State Ethics Commission Attorney General
8.	Non-Compliance	Rate Setting Commission EOHS Purchasing Agencies EOHS Office of Contracts Management
9.	Overbilling	Rate Setting Commission/ EOHS Purchasing Agencies
10.	Underspending	Rate Setting Commission/ EOHS Purchasing Agencies
11.	Undocumented Expenses	Rate Setting Commission/ EOHS Purchasing Agencies
12.	No Problem	File Closed

SECTION III

STATUS OF AUDITS ASSIGNED

Financial and Compliance Audits by CPA's	FY 1987
Total Audits Assigned 7/1/86 to 6/30/87	45
Financial and Compliance Audits by EOHS/OAA Staff	
Total Audits Assigned 7/1/86 to 6/30/87	63
Total	108

SECTION IV

SUMMARY OF RESPONSES TO AUDIT REPORTS

During FY 1985, FY 1986, and FY 1987, EOHS/OAA reported on 255 audits in eight legislative reports. Pursuant to policy, EOHS/OAA distributes audit reports and requires corrective action from governmental agencies which possess the statutory or regulatory authority to correct deficiencies cited (these policies are more fully explained in Section II, Summary of Resolution Procedures). The status of responses required by EOHS/OAA as of 6/30/87 include the following:

Agency	FY'85 and FY'86 Audit Referrals REF.	RESP. REC.	FY'87 Audit Referrals REF.	RESP. REC.	RESP. DUE AFTER 6/30/87
AG/PC	30	19	27	3	4
BPA	0	0	5	0	0
BR/REBS	0	0	1	1	0
DES	2	1	1	0	0
DMH	64	58	47	19	1
DOC	4	3	0	0	0
DOL	8	0	11	0	0
DOR	12	1	18	1	0
DPH	23	20	5	2	1
DPW	5	4	2	0	0
DSS	41	35	30	11	1
DYS	5	5	1	1	0
EOAF	1	1	0	0	0
HHS/IG	2	2	0	0	0
IRS	25	10	31	0	0
MCB	1	1	0	0	0
MORR	0	0	1	1	0
MRC	2	2	0	0	0
OCM	5	5	13	10	3
OGC	0	0	1	1	0
RI/BA	1	1	0	0	0
RSC	114	91	66	45	0
SEC	3	2	1	0	0
SOS	17	16	14	9	0
TOTALS	365	278	275	104	10

EXPLANATION OF ACRONYMS

AG/PC	Attorney General Public Charities Division
BPA	Massachusetts Board of Public Accountancy
BR/REBS	Board of Registration of Real Estate Brokers and Salesmen
DES	Division of Employment Security
DMH	Department of Mental Health
DOC	Department of Correction
DOL	Department of Labor and Industries
DOR	Department of Revenue
DPH	Department of Public Health
DPW	Department of Public Welfare
DSS	Department of Social Services
DYS	Department of Youth Services
EOAF	Executive Office for Administration and Finance
HHS/IG	US Department of Health and Human Services, Office of Inspector General
IRS	Internal Revenue Service
MCB	Massachusetts Commission for the Blind
MOOR	Massachusetts Office of Refugee Resettlement
MRC	Massachusetts Rehabilitation Commission
OCM	EOHS Office of Contract Management
OGC	EOHS Office of General Counsel and Investigations
OSA	Office of State Auditor
RI/BA	Rhode Island Bureau of Audits
RSC	Rate Setting Commission
SEC	State Ethics Commission
SOS	Secretary of State

SECTION V

RECOVERY OF FUNDS
FISCAL YEARS 1985, 1986, 1987

During fiscal years 1985, 1986 and 1987, pursuant to EOHS/OAA Audit Resolution Policy established in November, 1984, EOHS/OAA has recovered, and has directed agencies to recover, funds from provider organizations, based on findings cited in audits conducted by both the Auditor of the Commonwealth and by EOHS/OAA. As requested by the legislature, this section details the history and status of the proceedings involved in the recovery or resolution of $1,897,276 overall.

History

Prior to fiscal year 1985, EOHS/OAA staff negotiated the resolution of audit findings (including recovery of funds) directly with the auditee. Beginning in fiscal year 1985, EOHS/OAA implemented the new Policy concerning the resolution of audits. One of the elements of that new Audit Resolution Policy was the clarification that primary responsibility for the resolution of audit findings rested not with EOHS/OAA, but with the contracting agency. This new Policy was driven by a legal and administrative analysis indicating that it was more appropriate to have the parties to the contract working together to resolve audit findings, including the negotiation of recovery of funds. This also had the effect of freeing up EOHS/OAA staff to conduct and resolve more audits. Despite a reduction in direct recovery by EOHS/OAA itself, this policy has resulted in increased recovery by EOHS/OAA agencies (see Table I, Exhibit I). This more efficient use of resources by EOHS and its agencies increased the effectiveness of recovery overall (see Exibit II) and increased productivity by the audit unit.

It should be noted that there are many variables that affect the amount of funds that are directed to be recovered each year. For instance, in FY 1986 four unusually large recovery cases accounted for almost four hundred thousand dollars, while in FY 1987 no single case exceeded fifty thousand dollars. Therefore, the "bottom line" amount directed for recovery is not an indication of the productivity of the unit, but rather a compilation of unpredictable audit findings. This is especially true now that a substantial percentage (50%) of audits are selected on a random basis.

Status

The status of actual recovery of funds by EOHS and its agencies is shown in Table II. Under "Repayment Schedule" are listed funds being paid over time, subject to written agreements between agencies and providers, and outstanding as of June 30, 1987. Funds actually recovered, and additional services provided to agency clients at no charge to the Commonwealth, as of June 30, 1987, are listed under "Recovered". "Resolved" includes amounts in which the purchasing agency responded, to the satisfaction of EOHS/OAA, that upon further in-depth review, the funds in question should not be recovered. For example, this could be because the agency was satisfied, through other means, that questioned services had been delivered, or that the provider produced previously unavailable documentation for questionable costs. Funds under "In process" concern recoveries which were not adequately addressed prior to June 30, 1987.

TABLE I

EOHS DIRECTED RECOVERY

AGENCY	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	TOTAL BY AGENCY
EOHS/OAA	126,930	398,840	64,500	24,196	9,638	624,104
DMH			60,039	495,829	322,485	878,353
DSS			21,370	99,271	101,525	222,166
DPH			22,234	36,386	6,104	64,724
DOC			4,060			4,060
DYS				35,156	35,020	70,176
MRC				11,049	22,644	33,693
TOTAL	$126,930	$398,840	$172,203	$701,887	$497,416	$1,897,276

TABLE II

STATUS OF RECOVERY

AGENCY	TOTAL DIRECTED RECOVERY	REPAY. SCHEDULE	RECOVERED	RESOLVED	IN PROCESS
EOHS/OAA	624,104	26,800	597,304		
DMH	878,353	5,307	163,985	135,268	573,793
DSS	222,166	87,028	14,341	4,873	115,924
DPH	64,724		37,665	25,510	1,549
DOC	4,060		4,060		
DYS	70,176		12,043	21,565	36,568
MRC	33,693			11,049	22,644
TOTALS	$1,897,276	$119,135	$829,398	$198,265	$750,478

EXHIBIT I

RECOVERY OF FUNDS

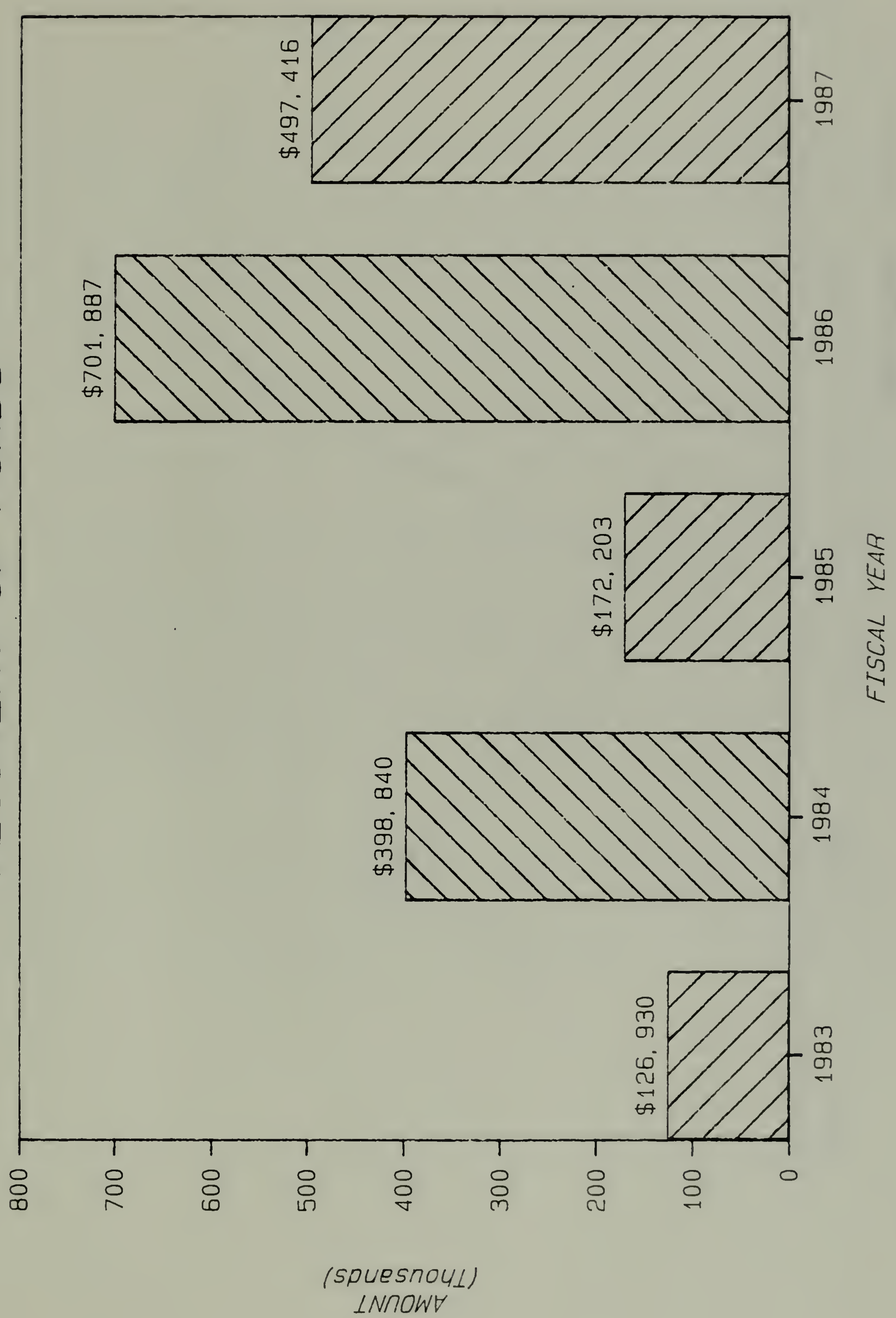
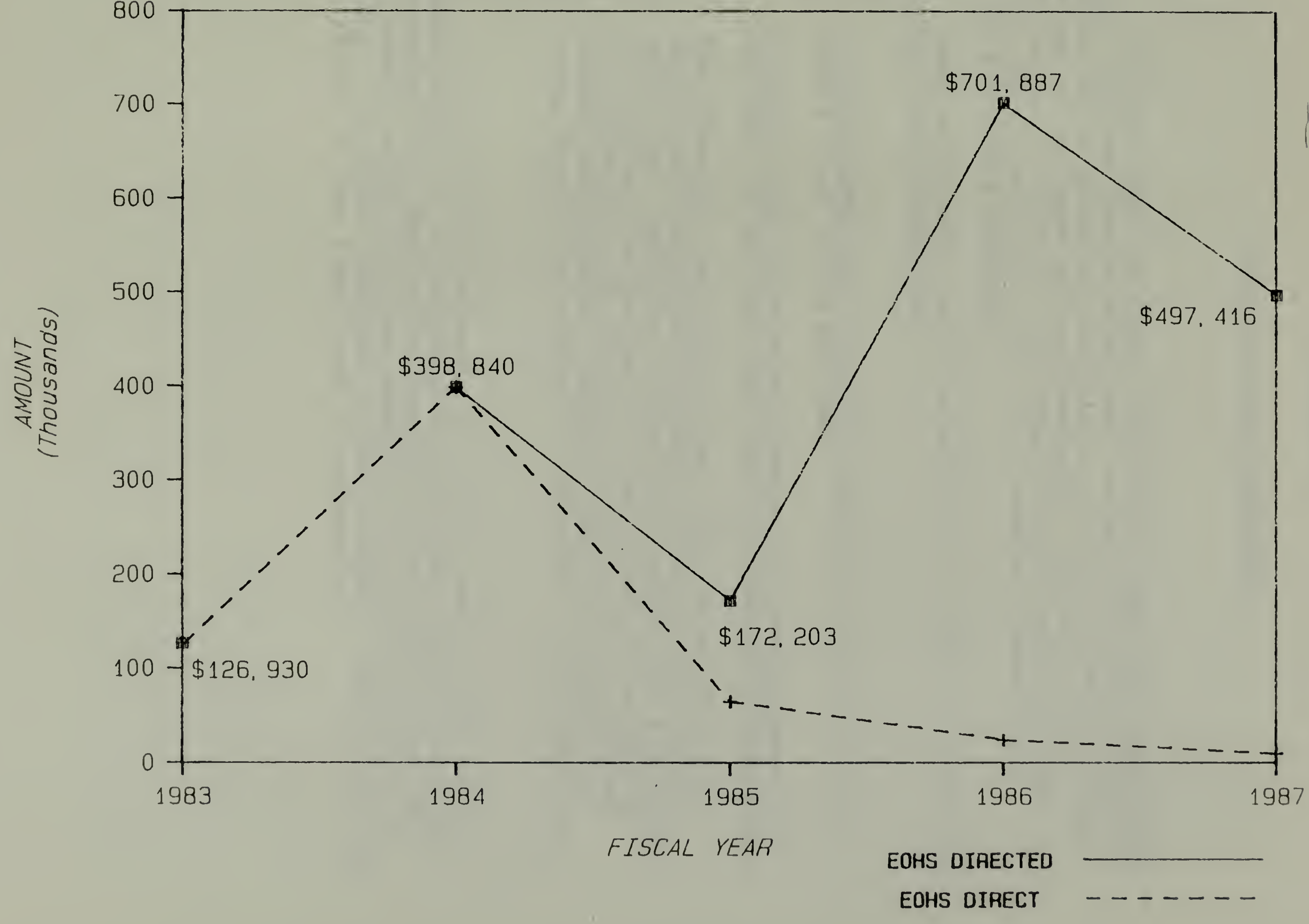


EXHIBIT II

RECOVERY OF FUNDS



SECTION VI

ANALYSIS OF RSC RESPONSES

Over the past few years, pursuant to EOHS Audit Resolution Policy, EOHS/OAA has referred many issues contained in audit reports to the Bureau of Educational, Social and Mental Health Services of the Rate Setting Commission. During FY 1987, EOHS/OAA has received 130 responses to audit referrals made during fiscal years 1984-1987. This section presents an analysis of those responses.

Most of the many issues referred to the RSC fall into the following three categories:

- Findings detailing Inaccurate Reporting on the RSC Cost Report filed by the provider;
- Findings which contain what appear, in the judgement of EOHS/OAA, to be Disallowed Costs per RSC Regulations; and
- The Financial Position Finding, which is a narrative summary of the provider's financial statements for the audit year, including whether the provider had a positive or negative fund balance, the amount and percentage of EOHS revenues, and whether the provider accrued excess revenue over expense ("surplus funds", so called) or excess expense over revenue ("deficit") in the audit year.

1) In the first category, out of 130 cases, EOHS/OAA had documented that in 22 instances the provider, intentionally or unintentionally, reported information inaccurately on the RSC Cost Report, which is signed under the pains and penalties of perjury. The audit referrals in this category varied from very significant to less significant discrepancies.

Of the 22 referrals for inaccurate reporting, in 20 cases the Bureau responded that the inaccurate information had no impact on current or future rates, and therefore no action was appropriate. In 2 cases, the Bureau used the data for future rate setting purposes. The Bureau has agreed to send letters to the providers in question, notifying them of the importance of accurate reporting.

2) In the second category, out of 130 cases, EOHS/OAA had documented that in 24 instances, the provider expended Commonwealth funds for something that was, in the judgement of EOHS/OAA, a "disallowed cost", as defined in RSC regulations. This could be for various reasons, including that the cost was excessive, or was unrelated to client services, or was not a "real" cost incurred by the provider. Again, the referrals in this category varied from very significant to less significant.

Of the 24 referrals for "disallowed costs", the Bureau responded in 14 cases that it did not agree with the EOHS/OAA interpretation that the costs were "disallowed", pursuant to RSC regulations. The Bureau has agreed to set forth its interpretation of these regulations in a written policy memorandum to EOHS/OAA. In 3 cases, the Bureau responded that the costs might have been paid by funding sources other than Commonwealth agencies, and recommended that EOHS/OAA should conduct further review of RSC 600-B and other documents and notify the Bureau of the result. In 7 cases, the Bureau agreed that the costs should have been disallowed, and recommended that EOHS/OAA refer to purchasing agencies the issue of recoupment of inappropriate reimbursement in prior years. The Bureau has agreed that in the future, under appropriate circumstances, it will take necessary rate action instead of recommending referral to purchasing agencies for recoupment. In 4 cases, the RSC agreed that the costs would be excluded from future years' rates.

3) In the third category, out of 130 cases, in 96 instances EOHS/OAA referred findings of excess revenue over expense ("surplus") or excess expense over revenue ("deficit") to the Bureau. "Surpluses" existed in 71 instances and "deficits" in 25 instances. The Bureau was requested to review the information to determine what effect, if any, it had on rates of reimbursement to the provider. The goal of conducting such a review was to determine whether or not the historical budgeting process was working.

The review was to include conducting a comparison between reimbursement by Commonwealth agencies and the actual allowable costs of providing services, over a three-year period (including the audit year), to determine if the provider was consistently accruing "surpluses", indicating that the system was not working to the favor of the Commonwealth, or "deficits", indicating that the provider might be in financial difficulty and therefore clients being served might be in jeopardy (see Section VII).

Of the 96 referrals, the Bureau conducted a three-year analysis in 14 cases. The Bureau indicated that it could not conduct a three-year analysis in 35 cases, because the provider had been exempt from filing a cost report in one or more of the years in question. In 24 cases, the Bureau conducted an analysis of two years in addition to the audit year. In 31 cases, based on a one, two, or three-year analysis, the Bureau stated that a significant variance between budgeted and actual costs had consistently accrued, and it recommended that the information be referred to purchasing agencies, to be addressed in accordance with the EOHS/OAA Audit Resolution Policy. In 5 cases, in which the audit finding noted a deficit in the audit year, the Bureau confirmed the finding and recommended that the information be referred to purchasing agencies to be addressed.

Based on the analysis presented in this Section, both EOHS/OAA and RSC have agreed that there are important issues presented which need further discussion in order to be resolved. Secretary Johnston has directed the Assistant Secretary for Management to convene meetings with the appropriate representatives of RSC and EOHS, to address recommendations by both agencies during the fall. The EOHS/OAA Legislative Report of December 31, 1987, will contain a section which reports on the outcome of these discussions.

SECTION VII

PURCHASING AGENCY RESPONSES

EXCESS INCOME OVER EXPENSES

In the legislative reports dated June 30, 1986 and December 31, 1986, EOHS/OAA reported that nine (9) cases had been referred to purchasing agencies after the RSC had determined that the reimbursement to these providers by EOHS agencies was consistently in excess of actual costs (totaling $232,576). In these nine cases EOHS/OAA requested the purchasing agencies to determine how the repeated excess income over expenses had occurred. It was further requested that each purchasing agency provide EOHS/OAA with any reports of program monitoring reviews conducted to verify that services were provided as set forth in the contract.

Of the 15 agency referrals in 9 cases EOHS/OAA has received 8 responses to date. Those responses indicated the following:

- In three responses, involving $90,742, the agency stated that the excess income over expenses was the result of periodic staff vacancies. In five other responses, involving $117,877 in excess income over expenses, the agency did not specify the source of the excess income.

- Although program monitoring reports were not available in any of the cases noted above, purchasing agencies asserted that services had been adequately delivered.

SECTION VIII

SUMMARY OF FY 1987 RESOLVED AUDITS

EOHS/OAA has reported on 33 provider cases resolved from January 1 through June 30, 1987, in Section IX, Individual Summaries of Audit Cases Resolved During FY 1987. In addition, EOHS/OAA reported on 52 such cases in the December 31, 1986, Legislative Report, for a total of 85 cases resolved in fiscal year 1987. These include 16 audits conducted by the Auditor of Commonwealth, and 69 audits conducted by EOHS/OAA, and in different instances included a review of fiscal or calendar year(s) 1983 through 1986. The findings cited are all material, but in some categories, they may vary from common infractions to serious compliance deficiencies. At the end of each case the resolution activity is summarized by naming the agency to which the issue was referred. A summary of the resolution of these 85 audits found that provider organizations were not in compliance in the following areas:

1. Internal Control Findings: In 56 (out of 69) cases, the provider organizations were cited. Generally, internal control findings also result in non-compliance with EOHS General Conditions, as well as non-compliance with other provisions of the contract.

2. Compliance with the Terms of the Contract: In 55 cases, providers were not in compliance.

3. Compliance with EOHS General Conditions: In 67 cases, providers were not in compliance.

4. Undocumented/Disallowed Costs: 30 cases contained findings of undocumented or disallowed costs which were referred to EOHS agencies for resolution.

5. Conflict of Interest: Violations were found in 4 cases.

6. Compliance with RSC Regulations Regarding Filing and Accurately Completing the Rate Setting Commission Cost Report: In 40 cases, providers were not in compliance.

7. Compliance with Related Party Requirements: 18 of the provider organizations which engaged in related party transactions, had not disclosed these as required by law.

8. Compliance with Filing Requirements of the Internal Revenue Service, the Department of Revenue, or the Division of Employment Security: In 33 cases, providers were not in compliance.

9. Compliance with the Filing Requirement of the Secretary of State: In 12 cases, providers were not in compliance.

10. Compliance with Filing Financial Statements with the Public Charities Division of the Attorney General's Office and Compliance with Statutory Requirement for Corporate Dissolution: In 23 cases, providers were not in compliance.

11. Compliance with Statutory Requirements Under the Jurisdiction of the Department of Labor and Industries Regarding Payment of Overtime: In 8 cases, providers were not in compliance.

12. Referrals to the Attorney General's Office Regarding Potential Fraud and Abuse: 5 cases were referred.

FINANCIAL IMPACT OF CASES RESOLVED

Resolution of Audits by EOHS/OAA	FY'86	FY'87
1. Direct recovery of funds by EOHS/OAA:	$ 24,196	$ 9,638
2. Recovery of funds by EOHS agencies directed by EOHS/OAA:	620,436	310,896
3. Recovery of funds by EOHS agencies, directed by EOHS/OAA as a result of vendor audits conducted by OSA:	57,255	176,882
TOTAL:	701,887	497,416
4. Excess revenues over expenses accrued by provider organizations audited and reported to RSC by EOHS/OAA as potential rate adjustments:	2,195,807	1,326,843
5. Referral by EOHS agencies to RSC for potential rate reductions, directed by EOHS/OAA as a result of vendor audits conducted by OSA:	179,147	19,224
TOTAL:	2,374,954	1,346,067
6. Excess expenses over revenues accrued by provider organizations audited and reported to RSC by EOHS/OAA as potential rate adjustments:	(561,373)	(757,281)

Amounts listed above include the 85 audits resolved in FY 1987, as well as the 90 audits resolved during FY 1986 and the follow-up to the State Auditor's Office, Audits #83-1080-3, #85-1080-4, and #86-1080-9-14.

FINANCIAL STATUS OF PROVIDERS REVIEWED

The audit resolution process included a review of the financial status of the 69 provider organizations audited by EOHS/OAA described in this Report and the December 31, 1986, Legislative Report. This review included an analysis of the fund balances or, in the case of for-profit organizations, retained earnings or stockholder's equity, stated on the providers' financial statements for the year(s) audited. In different instances, this included fiscal or calendar years 1983 through 1986. It should be noted that fund balances may include the value of buildings, furnishings and equipment, and investments, as well as cash.

1. Positive Fund Balances: In 56 cases, providers were found to have positive overall fund balances in the year(s) audited, from a minimum of $361 to a maximum of $10,232,146. These positive fund balances totalled $27,153,509.

2. Fund Deficits: In 7 cases, providers were found to have overall fund deficits in the year(s) audited, from a minimum deficit of ($14,042) to a maximum deficit of ($111,850). These deficits totalled ($365,952).

Note: In six audits resolved, fund balances were not applicable.

Analysis of Donated Funds

Chapter 761 of the Acts of 1985, the "Philanthropic Giving Act," incorporated into the General Laws as Section 77 of Chapter 6A, provides: "...(T)he Commission in carrying out its duties, in relation to the establishment of rates of payment and reimbursement for providers of health care services, as defined in section thirty-one, shall not consider in any computation involving such actions, the following as resources of such providers of health care services: unrestricted grants, gifts, contributions, bequests, fund principal or endowment balances, or any income therefrom, unless the provider voluntarily requests the commisssion to consider any or all such resources in establishing rates of payment or reimbursement of services under this section. Restricted grants, gifts, contributions, bequests, fund principal or endowment balances, or any income therefrom used to defray allowable operating costs associated with providing general health supplies, care, social, rehabilitative or educational services, and accomodations for eligible persons shall be offset by the commission against allowable operating costs unless such monies are specifically designated for the provision of free care to persons not eligible for public assistance." (emphasis added)

There has been a great deal of discussion concerning the potential fiscal impact of this legislation. In an effort to continue to provide useful information to the legislature, executive agency managers, and other interested parties, EOHS/OAA has conducted the following analysis. EOHS/OAA has reported on 85 cases resolved in the two Legislative Reports for fiscal year 1987, of which six cases were not appropriate for this study. Of the remaining 79 cases, sources of funding can be defined as below. This analysis is not intended to be extrapolated across the entire system of 1300 service providers.

	Amount	Percent
o Total funding received from all sources:	$120,551,630	(100%)
o Total funding received from EOHS agencies:	$ 71,939,062	(59.7%)
o Total funding received from other fee payors for services: (e.g. other state agencies, municipalities, client fees, federal government)	$ 35,855,746	(29.7%)
o Total funding received from other sources: (e.g. investment and interest income, restricted donations)	$ 9,508,355	(7.9%)
o Total unrestricted donations, gifts, contributions:	$ 3,249,467	(2.7%)

SECTION IX

INDIVIDUAL SUMMARIES OF AUDIT CASES RESOLVED DURING FY 1987

JANUARY 1, 1987, THROUGH JUNE 30, 1987

ALPHABETICAL LISTING OF PROVIDER ORGANIZATIONS

This section provides a summary of audit report findings and resolution activity which took place during the period July 1, 1986 to June 30, 1987. More detailed information is available upon request.

* Audited by the Auditor of the Commonwealth

* Audited by the Auditor of the Commonwealth

Provider Name: Adult/Adolescent Counseling, Inc.
156 Pleasant Street
Malden, MA 02148

Audit #: 0-215-86

Adult/Adolescent Counseling, Inc., provided a variety of alcohol counseling and crisis intervention programs and a residential program during the audit period. The provider contracted with the Department of Social Services, the Department of Public Health and the Department of Youth Services and was audited for fiscal year 1985. A summary of the audit report findings included the following:

1. Several weaknesses were noted in the provider's internal controls.

2. The provider's financial statements did not contain a compliance segment in the report or a letter giving independent assurance that the organization's financial recordkeeping practices complied with requirements contained in the Standard DSS Purchase Agreement.

3. Contract income from the Commonwealth was overstated in the provider's financial statements by $18,357. This additional revenue was actually received from private third party payments.

4. The provider failed to deduct $4,554.71 of billings received from third parties in violation of a DPH/DOA contract provision that required revenue realized from third parties be used to reduce the next month's invoicing.

5. The provider paid a total of $2,662.47 in tax penalties during 1985. These penalties are a disallowed cost and were not disclosed on the RSC 1100 sent to the Rate Setting Commission.

6. The provider did not maintain a complete inventory listing of fixed assets as required.

7. As of March 21, 1986, the provider had not filed a complete Rate Setting Cost Report (1100) for fiscal year 1985.

8. The provider's by-laws did not contain a dissolution section for the corporation as required.

9. The provider's audited financial statements as of June 30, 1985, stated a negative net worth of ($56,728). The provider has initiated a five year plan of corrective action to eliminate the negative net worth in an attempt to meet EOHS Pre-Qualification Standards.

10. The financial statements of Adult/Adolescent Counseling, Inc., audited by Gorsey and Woll, Certified Public Accountants, indicated a ($56,728) fund deficit as of June 30, 1985, comprised of a ($85,677) operating fund deficit, and a $28,949 land, building, and equipment fund balance. This balance included excess income over expenses of $5,969 which accrued during fiscal year 1985.

    Total revenues received by the provider for this same period amounted to $1,072,303, of which $549,298 was generated by the Department of Social Services, Department of Public Health, and Department of Youth Services contracts. Of the $492,156 generated from other fee for service payments, $375,142 was from private fees, $109,657 was from local cities and towns, $357 from private insurance fees, and $7,000 was from the Massachusetts Department of Labor. Additionally, $30,849 was received from contributions and other income.

    EOHS agency revenues received by the provider, $549,298, represented 52 percent of total income, while other fee payors for service represented 45 percent of total income. The remaining revenues represented three percent of total income.

EOHS/OAA requested that DSS negotiate a written administrative agreement with Adult/Adolescent Counseling, Inc., which addresses findings (1), (2), (5), and (6). EOHS/OAA also requested that the Rate Setting Commission review findings (3), (5), (7), (10) and determine what effect, if any, these findings have on rates of reimbursement to the provider. In addition, the Department of Public Health has been requested to recover $4,554.71 from finding (4). Also, the EOHS Office of Contract Management was asked review findings (5) and (9) to be sure that the provider is in the Early Warning System/Vendor Assistance Program and also to review the provider's plan of corrective action to determine if it is in compliance with the EOHS Procurement Manual. Finding (8) has been referred to the Internal Revenue Service for its review and to take whatever action it deems necessary. A response was subsequently received from DPH indicating that the $4,554.71 noted in finding (4) had been recovered. Satisfactory responses from DSS and RSC were also received.

Provider Name: Alternatives Unlimited, Inc.
54 Douglas Road
Whitinsville, MA 01588

Audit #: 0-151-86

Alternatives Unlimited, Inc., provided a wide range of services to mentally and physically handicapped persons in the Blackstone Valley Area during the audit period. The provider contracted with the Department of Mental Health, the Massachusetts Rehabilitation Commission, and the Department of Public Welfare, and was audited for fiscal year 1985. A summary of the audit report findings included the following:

1. Two weaknesses were noted in the provider's internal controls.

2. The provider's financial statements did not contain a statement of functional expenses as required.

3. The provider's financial statements did not include payroll costs related to in-kind services as required.

4. The provider failed to submit Forms 1096 and 1099 to the Internal Revenue Service for services rendered by 17 consultants during the year ended December 31, 1984.

5. The financial statements of Alternatives Unlimited, Inc., audited by Arthur C. Young, CPA, indicated a $91,338 fund balance as of June 30, 1985, comprised of a $75,686 general fund, and a $15,652 restricted fund. The fund balance included total excess expense over income of ($28,330) which accrued during fiscal year 1985.

   Total revenue and support for this period (which did not include donated goods and services received by the provider as noted in (3) above), amounted to $3,009,761, of which $2,499,953 was generated by the Departments of Mental Health and Public Welfare, and the Massachusetts Rehabilitation Commission contracts. Of the $472,409 received from other fee for service payors, $8,177 was received from the Department of Education, Bureau of Nutrition, $220,154 was from client fees, $220,333 was from sub-contract work, and $23,745 was from cities and towns under Chapter 766. Additionally, $37,399 was received from cafeteria sales, a private grant, and interest income.

EOHS agency revenues received by the provider, $2,499,953, represented 83 percent of total income, while other fee payors for service represented sixteen percent of total income. The remaining revenues represented one percent of total income.

EOHS/OAA requested that DMH negotiate a written administrative agreement with Alternatives Unlimited, Inc., which addresses findings (1), (2), and (3). EOHS/OAA also requested that the Rate Setting Commission review finding (5), to determine what impact, if any, this information has on rates of reimbursement to the provider. Furthermore, the Internal Revenue Service and the Department of Revenue have been asked to review finding (4) and to take whatever action is deemed necessary.

Provider Name: Anchor House, Inc.
60 1/2 Cherry Street
Box 6116
North Plymouth, MA 02360

Audit #: 0-263-86

Anchor House, Inc., provided a supportive alcohol-free environment for the rehabilitation of male alcoholics at a residential facility during the audit period. The provider contracted with the Department of Public Health and was audited for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. There were several significant weaknesses noted in the provider's internal controls.

2. During fiscal year 1985, several bonuses totalling $1,200 were paid to employees.

3. The executive director was reimbursed $919 for travel without supporting documentation.

4. The provider did not maintain a complete inventory listing for fixed assets which segregated equipment purchased with public funds from equipment purchased with private or donated funds.

5. All program operations of the organization fell under the class rate reimbursement provisions of Rate Setting Regulations. Under these provisions, the organization realized an excess of public support and revenue over expenses of $3,048 in FY 1984, 3% of total state revenue, and $9,722 in FY 1985, 7% of total state revenue. Adjustment of these excess revenues in accordance with the reimbursement provisions of Chapter 761 of the Acts of 1985 "The Philanthropic Giving Act", would have the effect of reducing these excess revenues to ($221) in FY'84, and $6,545 in fiscal year 1985.

6. The financial statements of Anchor House, Inc., audited by Paul J. Gerry, CPA, PC, indicated a $15,083 fund balance as of June 30, 1985, comprised of a $15,057 unrestricted fund, a $2,905 restricted fund, and a ($2,879) fixed asset fund deficit. This balance included excess income over expenses of $9,722 which accrued during fiscal year 1985.

Total revenue received by the provider for this same period amounted to $159,975 of which $132,337 was generated by DPH contracts. Of the $24,461 generated from other fee-for-service payments, $12,421 was from client fees and $12,040 from the federal government (Food Stamps). Additionally, $3,177 was received from donations, interest income, and miscellaneous income.

EOHS agency revenues received by the provider, $132,337, represented 83 percent of total income, while other fee payors for service represented fifteen percent of total income. The remaining revenues represented two percent of total income.

EOHS/OAA requested that DPH negotiate an administrative agreement with Anchor House, Inc., which addresses findings (1), (2), (4), and (5) and also addresses the recovery of funds totalling $919 from finding (3). EOHS/OAA also requested that RSC review findings (2) (5) and (6) to determine what effect, if any, such findings may have on rates of reimbursement to the provider.

Provider Name: Boston Center for Independent Living, Inc.
50 New Edgerly Road
Boston, MA 02115

Audit #: 85-1080-4

Boston Center for Independent Living, Inc. (BCIL) provided services during the audit period to severely physically disabled individuals in the Greater Boston area to develop health maintenance and independent living skills. The provider contracted with the Department of Mental Health (DMH) and the Massachusetts Rehabilitation Commission (MRC) and was audited by the Auditor of the Commonwealth for fiscal years 1983 and 1984. A summary of the audit findings included the following:

1. The Auditor identified that BCIL received state reimbursement totaling $22,644 from the Massachusetts Rehabilitation Commission in excess of the maximum contract amount. The provider did not execute a standard contract amendment to modify the contract, as required.

EOHS/OAA has requested MRC to negotiate an administrative agreement with BCIL which specifically identifies how overpayment occurred, and which provides for implementation of a procedure to prevent a reoccurrance. The administrative agreement should also address recovery of $22,644 in excess reimbursement noted in finding (1).

Provider Name: The Catholic Charitable Bureau of Boston
Ten Derne Street
Boston, MA 02114

Audit #: C-374-86

The Catholic Charitable Bureau of Boston, a branch of the Catholic Charitable Bureau of the Archdiocese of Boston, Inc., operated five programs including resettlement services, day care, elderly services, foster care, and an out-patient mental health clinic during the audit period. The provider contracted with the Department of Social Services, Department of Education, Department of Elder Affairs and Office for Children and was audited for the fiscal year ended June 30, 1985. A summary of the audit findings included the following:

1. Several weaknesses were noted in the provider's internal controls.

2. The provider's financial statements did not reflect the value of all of the in-kind income received by the provider.

3. The provider was renting space from a related party, St. Hugh's Parish. This related party transaction was not disclosed on the RSC 1100 Cost Report.

4. The provider issued checks totalling $200 out of a client's social security benefits to the foster parent for expenses that already had been reimbursed to the foster parent from foster care funds.

5. Quality Assurance Reviews have not been conducted of programs delivered by the provider since 1981.

6. A recalculation of depreciation of fixed assets reported on the provider's RSC Cost Report reflected disallowed depreciation expenses totalling $11,031.

7. The financial statements of The Catholic Charitable Bureau of Boston, a branch office of the Catholic Charitable Bureau of the Archdiocese of Boston, Inc., audited by Peat, Marwick, Mitchell, and Company, Certified Public Accountants, indicated a total fund balance of $485,729 comprised of a ($340,297) unrestricted fund deficit, a $339,734 endowment fund balance, and a $486,292 equipment fund balance as of June 30, 1985. This balance included excess income over expenses of $82,331 which accrued during fiscal year 1985.

Total revenues received by the provider for this same period amounted to $4,376,765, of which $1,594,662 was supported by contracts with the Department of Social Services and Office for Children. Of the $1,501,242 generated from other fee for services payments, $549,391 was from the Department of Elder Affairs, $36,000 from the Department of Education, $359,754 from individual fees, $504,097 from the United Way, and $52,000 from the Roman Catholic Archbishop of Boston. Additionally, $1,280,861 was received from donations, fundraising, bequests, and interest income.

EOHS agency revenues received by the provider, $1,594,662, represented 36 percent of total income, while other fee payors for service represented thirty-four percent of total income. The remaining revenues represented thirty percent of total income.

EOHS/OAA requested that DSS enter into an administrative agreement with The Catholic Charitable Bureau of Boston, which addresses findings (1), (2), and (5) in accordance with the provider's response, and also addresses the recovery of $200 noted in finding (4). In addition, EOHS/OAA has requested RSC to review findings (3), (6), and (7) to determine what effect, if any, such findings may have on the rates of reimbursement to the provider.

Provider Name: Center for Humanistic Change,Inc.
1655 Main Street, Suite 201
Springfield, MA 01103

Audit # 86-1080-11

Center for Humanistic Change, Inc. provided residential care, day care, and respite care for developmentally disabled clients during the audit period. The provider contracted with the Department of Mental Health and was audited by the Auditor of the Commonwealth for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. The provider did not maintain client attendance records to support billings to the Commonwealth.

2. The provider leased property from a related party, the father of the executive director. Based on the Auditor's computation, the amount of the lease exceeded reimbursement permitted under Rate Setting Commission Regulations.

EOHS/OAA requested that DMH negotiate a written administrative agreement with Center for Humanistic Change, Inc. which addresses finding (1). EOHS/OAA also requested that the Rate Setting Commission review finding (2), and determine what effect, if any, such finding has on the rates of reimbursement to the provider.

Provider Name: Center House, Inc.
120 Tremont Street
Boston, MA 02108

Audit #: C-398-86

Center House, Inc. provided a wide range of comprehensive, community-based programs to mentally and emotionally handicapped adults at five sites in the Boston area during the audit period. The provider contracted with the Department of Mental Health and was audited for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. Several weaknesses were noted in the provider's internal controls.

2. A recalculation of unit rates indicated that in five out of six programs, rates based on actual cost were significantly lower than the approved unit rates.

3. The provider included the value of donated goods and services totalling $12,264 on the IRS Form 990 for the year ended December 31, 1985. IRS filing requirements prohibit this practice.

4. Residents of the Community Residence Program contributed toward their rent on a sliding fee scale. The Boston Housing Authority (BHA) subsidized the remainder of the clients' rental payments. Two clients received the increased income of more than ten percent in 1985 and the provider never notified the BHA to adjust their rents, as required.

5. The provider filed its RSC 600 Cost Report for the year ended December 31, 1984, in February of 1986. The cost report for the year ended December 31, 1985, was not filed until November 5, 1986.

6. The provider had significant variances between budgets and contract revenues and expenses in two programs, the Transitional Employment/Permanent Employment Program and the Vocational Preparatory Program. The variances were due to budgeted units of service not being realized and salary expenses not being incurred. The TE/PE Program incurred a deficit of ($24,760) and the VP Program realized $29,108 excess revenue over expenses during the audit period.

7. The audited financial statements of the provider did not reflect accrued vacation expenses. Generally accepted accounting principles require that a vacation liability be presented on the financial statements if this amount would be payable to employees upon termination.

8. The financial statements of Center House, Inc., audited by Holdworth, Burrell, and Company, indicated a $284,458 fund balance as of December 31, 1985. This balance included excess income over expenses of $10,685 which accrued during calendar year 1985.

   Total revenues received by the provider for this same period amounted to $2,152,777 of which $1,187,721 was supported by the Department of Mental Health, Mass Rehabilitation Commission and Department of Public Welfare contracts. Of the $71,523 generated from other fee for service payments, $65,981 was from client fees and $5,542 from the Boston Housing Authority. Additionally, $893,533 was received from contract services, contributions, investments, and miscellaneous income.

   EOHS agency revenues received by the provider, $1,187,721, represented 55 percent of total income, while other fee payors for service represented three percent of total income. The remaining revenues represented forty-two percent of total income.

EOHS/OAA requested that DMH enter into an administrative agreement with Center House, Inc. to address findings (1), (4), (6) and (7) in accordance with the provider's response. In addition, EOHS/OAA has requested RSC to review finding (5) for determination of appropriate action and findings (2) and (8) to determine what effect, if any, such findings may have on the rates of reimbursement to the provider. EOHS/OAA has also reported finding (3) to the Internal Revenue Service for determination of appropriate action.

Provider Name: Community Residences, Inc.
P. O. Box 683
Worcester, MA 01603

Audit #: 86-1080-8

Community Residences, Inc. (CRINC), provided residential and counseling services to clients in the Greater Worcester and Greenfield areas during the audit period. The provider contracted with the Department of Mental Health and was audited by the Auditor of the Commonwealth for fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. The provider paid rent from September 1981 through February 1986 to a related party, Developmental Educational Corporation (DEC), which included $18,720 of expenses disallowed pursuant to Rate Setting Regulations.

2. DEC sold two pieces of property, previously acquired from the provider for one dollar, to the Worcester Housing Authority and a private party. The provider did not receive any proceeds from the sale of these two properties. The Auditor attempted to determine how DEC used the proceeds from the sale of the properties, but was denied access to DEC's books and records.

3. The provider paid $2,966 for maintenance and repairs to DEC in excess of what was required under the terms of the lease agreements with DEC.

4. The provider over-charged 11 clients $21,917 for rent during 1984 and 1985. The provider used rent subsidies from the Worcester Housing Authority, targeted to reduce the clients rent, to pay general operating expenses.

5. During fiscal year 1985, CRINC did not report to the US Internal Revenue Service and the Massachusetts Department of Revenue the value of benefits which it provided to five employees. The IRS requires that any benefit provided to an employee in exchange for services must be reported.

6. The review of two residential sites disclosed many safety hazards and unsanitary conditions. Furthermore, the Auditor questioned the appropriateness of the placement of one client.

EOHS/OAA requested that DMH enter into an adminstrative agreement with Community Residences, Inc., to address finding (6) in accordance with the provider's response as contained in the report. This administrative agreement should also address the recovery of $24,883 noted in findings (3) and (4), including refunding $21,917 noted in (4) to the clients. In addition , EOHS/OAA has requested that the RSC and the Attorney General's Division of Public Charities review findings (1) and (2) and take appropriate action. EOHS/OAA has also reported finding (5) to the Internal Revenue Service and the Department of Revenue for determination of appropriate action.

Provider Name: Country Day School, Inc.
88 Stony Hill Road
Wilbraham, MA

Audit #: 0-422-86

The County Day School, Inc., a for-profit corporation, provided day care services during the audit period. The provider contracted with the Department of Social Services and was audited for fiscal years 1985 and 1986. A summary of the audit report findings included the following:

1. Several weaknesses were noted in the provider's internal controls.

2. Employee files did not contain a statement of job description and qualification requirements as required.

3. The provider did not require employees to submit timesheets.

4. The provider's financial books and records did not provide for the allocation of expenses and revenues by contract as required by Attachment C of the Standard DSS Purchase Agreement, and the EOHS General Conditions.

5. The provider's financial statements, prepared by Elaine R. Korhonen, CPA, were unaudited, did not contain an assurance that the records were maintained in accordance with generally accepted accounting principles, and did not contain a compliance segment. These conditions are in violation of EOHS Pre-Qualification Standards and Attachment C of the Standard DSS Purchase Agreement.

6. The provider failed to maintain a general ledger and chart of accounts as required.

7. Auditors were unable to verify units of service billed to DSS prior to December of 1985 because of inadequate recordkeeping practices.

8. The unaudited financial statements of Country Day School, Inc., a for-profit corporation, reviewed by Elaine R. Korhonen, Certified Public Accountant, indicated a Stockholders' Equity deficit of ($9,999) as of December 31, 1985. This balance included excess income over expenses of $8,463 which accrued during fiscal year 1985.

Total revenues and support received by the provider for this same period amounted to $134,266, of which $23,731 was supported by Department of Social Services contracts. Of the $110,011 generated from other fee for service payments, all were from private tuition payments. Additionally, $524 was received from dividends.

EOHS agency revenues received by the provider, $23,731, represented 17 percent of total income, while other fee payors for service represented eighty-two percent of total income. The remaining revenues represented one percent of total income.

EOHS/OAA requested that DSS enter into an administrative agreement with Country Day School, Inc., to address findings (1), (2), (3), (4), (5), (6) and (7) in accordance with the provider's response as contained in the report. In addition, the Executive Office of Human Services, Office of Contracts Management was requested to review findings (5) and (8) to determine if the provider was in compliance with Pre-Qualification Standards for Contracting for fiscal year 1987. EOHS/OAA also requested the RSC to review finding (8) to determine what effect, if any, such finding may have on the rates of reimbursement to the provider, and a satisfactory response was subsequently received from RSC.

Provider Name: Don Guanella Center, Inc.
37 Nichols Street
Chelsea, MA

Audit #: C-423-86

The Don Guanella Center, Inc., provided services for mentally retarded adults through two types of programs during the audit period. The provider contracted with the Department of Mental Health and was audited for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. Many significant deficiencies were noted in the provider's internal controls.

2. The provider listed depreciation expense of $1,223 on the RSC Cost Report filed for fiscal year 1985 when the allowable depreciation expense was $1,068 per RSC Regulations.

3. The provider failed to properly disclose related party transactions on its IRS Form 990 and RSC Cost Report, both filed for fiscal year 1985. The provider's RSC Cost Report filed for FY 1984 also did not disclose similar related party transactions. A written explanation was submitted to the RSC stating why the provider did not believe these transactions to be related. It was unclear if the RSC agreed with that explanation.

4. The financial statements of Don Guanella Center, Inc., audited by Livingston and Hays, CPA, indicated a $34,608 fund balance as of June 30, 1985, comprised of a $5,898 unrestricted fund and a $28,710 plant fund. This balance included excess income over expenses of $13,329 which accrued during fiscal year 1985.

   Total revenues received by the provider for this same period amounted to $322,563, of which $314,780 was supported by Department of Mental Health contracts. The remaining $7,783 was received from donations and interest income.

   EOHS agency revenues received by the provider, $314,780, represented 98 percent of total income. The remaining revenues represented two percent of total income.

EOHS/OAA requested that DMH enter into an administrative agreement with the Don Guanella Center, Inc., which addresses finding (1). The RSC was requested to address findings (2), (3), and (4) to determine what effect, if any, such findings may have on the rates of reimbursement to the provider. A response was subsequently received from RSC adequately addressing these issues. In addition, finding (3) was referred to the Internal Revenue Service for any action it may deem appropriate.

Provider Name: Dynamic Action Residence Enterprise, Inc.
265 Medford Street
Somerville, MA 02143

Audit #: 85-1080-4

Dynamic Action Residence Enterprise, Inc. (DARE) offered a wide range of services to residents of central and eastern Massachusetts during the audit period, including foster care and mentor programs, residential treatment for adolescents, diagnostic assessment, treatment and counseling, residential programs for the retarded, educational and vocational services for the unemployed, and adoption services. The provider contracted with the Department of Youth Services and was audited by the Auditor of the Commonwealth for fiscal years 1983 and 1984. A summary of the audit findings included the following:

1. DARE used state reimbursements of $9,007 to operate an affiliated for-profit corporation. DARE, which was almost entirely state funded, provided the Management Association for Human Services, Inc. (MAHS) with all of its operating resources, personnel, office space, utilities, supplies, and equipment. These expenses were unreasonable operating costs pursuant to RSC Regulations.

2. DARE provided the Director of Clinical Services with $4,575 during the audit period to lease a 1983 Volvo. The director used this car for both business and personal activity. This fringe benefit was a disallowed cost pursuant to RSC Regulations.

3. DARE leased vehicles that were primarily used for personal travel for three executives. DARE maintained no records to support business miles traveled by each employee, and was reimbursed $21,438 by the Commonwealth for these vehicles during fiscal year 1984. This was a violation of the EOHS General Conditions.

EOHS/OAA requested the Department of Youth Services to negotiate an administrative agreement with DARE which addresses the recovery of $35,020 noted in findings (1), (2), and (3).

Provider Name: Family Day Care, Inc.
276 Washington Street
Brookline, MA 02147

Audit #: 85-1080-4

Family Day Care, Inc. (FDC) provided day care and support services for children and their families through a network of registered and trained child-care providers in the Boston area during the audit period. The provider contracted with the Department of Social Services and the Department of Education and was audited by the Auditor of the Commonwealth for fiscal years 1983 and 1984. A summary of the audit report findings included the following:

1. Two weaknesses were noted in the provider's internal controls:

   a) FDC's accountant authorized 45 checks totalling approximately $48,000 even though FDC's bank did not have sufficient funds to cover the checks.

   b) FDC's accountant who, in addition, maintained the accounting records for a related party organization, Massachusetts Mental Health Research Corporation, Inc. (MMHRC), initiated advances totalling $164,000 between the two corporations. No loan agreements existed between the two agencies.

2. FDC's accountant, with the approval of the former executive director, funneled $13,024 from MMHRC to FDC to circumvent a State Ethics Commission (SEC) ruling regarding supplemental salary payments to state employees. Three DMH employees had been assigned to work for MMHRC and had received their regular state salary, as well as a supplemental salary from MMHRC. In 1982 the SEC ruled that a conflict of interest existed, so MMHRC started transferring money through FDC in order to continue paying the state employees. This finding was referred by the OSA to the Attorney General's Office.

3. FDC's accountant and the former executive director created ficticious bills of $4,402, for copying services that were never provided, to MMHRC. The bills were created because the FDC was experiencing a cash flow problem and needed to generate additional funds to remain current with its debtors. In addition, MMHRC needed documentation to support its yearly budget request to DMH for copying and printing services. This finding was also referred to the AG by the OSA.

EOHS/OAA requested DSS to negotiate a written administrative agreement with FDC which addresses finding (1). In addition, the administrative agreement should address recovery of the $17,426 identified in findings (2) and (3). Also, EOHS/OAA has directed DSS to request a written response from the Attorney General's Office detailing actions taken on findings (2) and (3) and to report the results of that inquiry to EOHS/OAA. It should be noted that findings concerning the related party organization, MMHRC, were referred to DMH for resolution.

Provider Name: F.F.S., Inc.
93 Grand Street
Worcester, MA 01610

Audit # 0-245-87

F.F.S., Inc. provided services to mentally retarded adults through residential housing during the audit period. The provider contracted with the Departments of Mental Health and Public Welfare and was audited for the fiscal year ended June 30, 1986. A summary of the audit report findings included the following:

1. Two weaknesses were noted in the provider's internal controls.

2. The provider incurred $2,971 in expenses for out-of-state travel. The provider requested, but never received, prior authorization from the DMH area office for this expense.

3. The provider occupied two (2) state-owned facilities for which the Commonwealth and the provider had not entered into a user/space agreement as required. In its response the provider stated that it had verbally requested such an agreement from the Commonwealth.

4. The dissolution section of the corporation's by-laws and Articles of Organization was not in accordance with Massachusetts General Laws.

5. The provider failed to pay overtime at the rate of time and one-half to employees for hours worked in excess of 40 hours per week as required.

6. Daily employee attendance records maintained by the provider did not document actual hours worked.

7. The provider paid stipends of $21,168 to employees during fiscal year 1986. Because inadequate time records were maintained, auditors could not verify the work completed to support these expenditures.

8. The provider did not have an objective policy for sick time benefits. In its response the provider stated that it had corrected this deficiency.

9. The provider received excess revenue over expenses, in DMH and DPW unit rate contracts, of $91,870 during fiscal year 1986 as a result of payroll vacancies. These excess revenues averaged approximately ten percent of total contract dollars over 5 contracts.

10. The provider issued $2,352 in employee bonuses to employees during fiscal year 1986.

11. The financial statements of F.F.S., Inc., audited by KMG Main Hurdman, CPA's, indicated a $458,142 fund balance comprised of a $203,656 unrestricted fund and a $254,486 plant fund as of June 30, 1986. This balance included excess income over expenses of $96,363, which accrued during fiscal year 1986.

    Total revenues and support received by the provider for this same period amounted to $1,526,161 of which $1,344,498 was supported by DMH and DPW contracts and support. Of the $161,020 generated from other fee for service payments all was from client assessments. Additionally, $20,643 was received from interest and miscellaneous income.

    EOHS agency revenues received by the provider, $1,344,498, represented 88 percent of total income, while other fee payors for service represented ten percent of total income. The remaining revenues represented two percent of total income.

EOHS/OAA requested that DMH negotiate a written administrative agreement with F.F.S., Inc., which addresses findings (1), (3), (6),and (8) and the appropriateness of recovery of funds in findings (2), (7), (9) and (10) in accordance with the provider's response as contained in the report. EOHS/OAA requested that the Attorney General's Office address (4) and the Division of Labor and Industries address (5). The RSC was requested to address findings (10) and (11) to determine what effect, if any, such findings may have on the rates of reimbursement to the provider.

Provider Name: Growthways, Inc.
117R South Franklin Street
Holbrook, MA 02343

Audit #: C-408-86

Growthways, Inc., maintained several types of residential programs for developmentally disabled or impaired persons during the audit period. The provider contracted with the Department of Mental Health and was audited for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. Many significant weaknesses were noted in the provider's internal controls.

2. The provider did not maintain adequate financial records.

3. Revenues reported on the RSC 1100 from cost reimbursement contracts did not agree with revenue figures reported on a related schedule.

4. The provider had not filed IRS Form 990, the corporate tax return, for fiscal year 1985 at the completion of audit field work on May 8, 1986.

5. The provider had not filed Form PC with the Attorney General's Office for fiscal year 1985, as of May 8, 1986.

6. The provider did not maintain an inventory list of equipment that was purchased with state funds as required.

7. The provider had not filed its Annual Report for FY 1985 with the Secretary of State as of May 8, 1986.

8. Check stubs did not indicate in which program each expense was incurred. However, the Automatic Data Processing Company's cash receipts journal, cash disbursements journal, and general ledger , represented the expenditures by programs. Since the only source for this information appeared to be the checkbook, it was not clear how the provider communicated this information to the ADP Company.

9. The payroll records maintained by the provider were grossly incomplete and inadequate.

10. The provider's records showed a note payable of $16,000 to the executive director's ex-spouse. There was a signed agreement and interest was paid at one percent over the prime interest rate. This related party transaction was not disclosed on the RSC Cost Report as required.

11. The provider's main office space was donated by the Executive Director. The fair market value of this donated office was not disclosed on the RSC 1100 Cost Report or on the provider's financial statements as required.

12. The provider had no written policy on how client funds should be maintained as required.

13. In fiscal year 1985, there was no system in place to monitor program expenditures, no budget prepared for individual programs, and there was no system in place to check the status of expenditures at any point during the year.

14. The provider failed to properly report consultant earnings to the IRS as required. The earnings were reported but not on the proper forms.

15. Approved timesheets were not used to support payroll disbursements as required.

16. Numerous discrepancies were noted in payroll positions. In positions which required and were budgeted for a total of 122.105 full time equivalents, a total of only 12.29 FTE's were actually employed. Therefore, there was a variance of $146,940 between contract budgets for these positions and actual cost.

17. During fiscal year 1984, Growthways, Inc., had a pension plan. This plan, which was discontinued prior to June 30, 1984, funded all employees' individual retirement accounts based on a specific percentage of their salaries. This plan was in existence when the agency was exempt from participation in the Federal Insurance Compensation Act and was terminated when Growthways, Inc., began participating in the FICA. No written documentation could be found to fully explain the plan's operation or termination. The executive director indicated that the plan was discontinued, and all employees merely kept their funds, since all funds had been deposited into an individual savings account with only the employee's name on it. No monies were returned to the agency or to the Commonwealth. The W-2 Forms

issued by the provider to employees for 1984 did not include the amount contributed to each employee's account.

18. Several billing errors occurred resulting in over-reimbursement of $1,593.10 during the audited period.

19. Several client files lacked required information such as progress reports and certain social security information.

20. The provider failed to keep employee personnel records complete and up-to-date as required.

21. Discrepancies were noted between the provider's budgeted fringe benefits, actual fringe benefits paid, and fringe benefits reported in the financial statements.

22. The provider could not locate several lease agreements requested by the auditor.

23. The financial statements of Growthways, Inc., audited by Stephen von Lichtenberg, CPA, indicated a $7,690 fund balance as of June 30, 1985. This balance included excess income over expenses of $14,024 which accrued during fiscal year 1985.

    Total revenues received by the provider for this same period amounted to $903,394, of which $835,693 was supported by Department of Mental Health contracts. Of the remaining $67,701, $61,742 was generated from fee for service payments, from local cities and client fees. Additionally, $5,959 was generated from interest income.

    EOHS agency revenues received by the provider, $835,693, represented 93 percent of total income, while other fee payors for service represented six percent of total income. The remaining one percent consisted of interest income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Growthways, Inc., which addresses findings (1), (2), (6), (8), (9), (12), (13), (15), (16), (19), (20), (21) and (22); in addition, DMH has also been requested to recover funds totalling $1,593.10 that have been identified in finding (18). EOHS/OAA also requested that RSC review findings (3), (10), (11) (16), (21), and (23) and determine what effect, if any, such findings may have on rates of reimbursement to the provider. In addition, the Attorney General's Division of Public Charities has been asked to review finding (5) and the Secretary of State's Office has been asked to review finding (7). Furthermore, the Internal Revenue Service has been asked to review findings (4), (14), and (17) and the Department of Revenue has been asked to review (14) and (17).

Provider Name: Hampden County House of Corrections
79 York Street
Springfield, MA 01105

Audit #: 0-433-86

Hampden County House of Corrections provided counseling services to inmates during the audit period. The provider contracted with the Department of Social Services and was audited for the fiscal year ended June 30, 1985. A summary of the audit findings included the following:

1. The documentation submitted for audit to support service units was not in accordance with DSS requirements for the type of service provided under the DSS contract. In addition, there was a variance between the type of services described under the contract negotiated by DSS and the program services described in the provider's proposal.

2. The provider received funds from DSS and the United Way to pay for the salaries and fringe benefits of two counselor positions. A review of payroll and fringe benefit disbursements for these two positions revealed that Federal Insurance Compensation Act (FICA) and Division of Employee Security (DES) obligations were not being witheld by Hampden County personnel who prepared the payroll. Therefore, these tax obligations were not being met. Provider staff indicated that the provider had not paid these tax obligations because these were non-county employees and the DSS had been notified in writing of that policy.

3. The provider's financial records did not segregate income by funding source as required by EOHS General Conditions, Article VI, Section A.

4. The financial statements of the County of Hampden, Massachusetts, audited by Peat, Marwick, Mitchell & Co., indicated a $4,040,000 fund balance as of June 30, 1985, comprised of a $3,631,000 General fund, a $608,000 Special Revenue fund, and a ($199,000) Capital Projects fund deficit. This balance included excess income over expenses of $213,000 which accrued during fiscal year 1985.

Total revenues and support received by the County for this same period amounted to $1,645,000, of which $42,077 was generated by the Department of Social Service contract. Additionally, $14,602,923 was received from taxes, intergovernmental sources, rent, fees, permits, investment income, and miscellaneous income.

EOHS agency revenues received by the provider, $42,077, represented .29% of total income. The remaining revenues represented 99.71% of total income.

EOHS/OAA requested that DSS enter into an administrative agreement with Hampden County House of Corrections which addresses findings (1), (2) and (3) in accordance with the provider's response as contained in the report. In addition, finding (2) was referred to the Internal Revenue Service and the Division of Employment Security.

Provider Name: Haverhill/Newburyport Human Services, Inc.
21 Wingate Street
Haverhill, MA 01830

Audit #: 85-1080-4

Haverhill/Newburyport Human Services, Inc. (HNHS) provided a range of community mental health and mental retardation services during the audit period. The services included residential and clinical services, respite/specialized home care, and an early intervention program. HNHS provided these services to the residents of the eleven cities and towns comprising the Merrimack Valley area. The provider contracted with the Departments of Mental Health, Public Health, Public Welfare, and the Massachusetts Commission for the Blind and was audited by the Auditor of the Commonwealth for fiscal years 1983 and 1984. A summary of the audit report findings included the following:

1. The provider accumulated $50,552 in excess contract revenue over expenses during fiscal year 1984 as a result of unanticipated staff vacancies.

EOHS/OAA requested DMH to negotiate an administrative agreement with the provider which addresses the recovery of $50,552 noted in finding (1). Since the positions in question were subsequently filled by state employees, the contract revenues constituted duplicate payment of the same cost.

Provider Name: Health Care, Inc.
355 Park Street
Lawrence, MA 01841

Audit # 86-1080-14

Health Care, Inc. provided a community residence program for mentally handicapped individuals during the audit period. The provider contracted with the Department of Mental Health, and was audited by the Auditor of the Commonwealth for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. The provider granted two no-interest loans, totaling $20,000, to Arlington Park Management Company (A.P.M.), a related for-profit corporation. The President/Treasurer of the provider's Board of Directors was also the President and part owner of A.P.M. These loans were repaid in full prior to the start of the audit. This practice was also in violation of the provider's Articles of Organization. It should also be noted that the provider paid $3,760 during the audit period to A.P.M. for regular monthly charges for telephone, space, office supplies, and equipment rentals.

EOHS/OAA requested that DMH negotiate an administrative agreement with Health Care, Inc. which addresses finding (1) in accordance with the recommendation in the audit report and the provider's response.

Provider Name: Little Folks Community Day Care Center, Inc.
65-67 Trenton Street
East Boston, MA 02128

Audit #: C-558-87

Little Folks Community Day Care Center, Inc., provided day care services to area families during the audit period. The provider contracted with the Department of Social Services and was audited for fiscal year 1986. A summary of the audit report findings included the following:

1. Several weaknesses were noted in the provider's internal controls.

2. The provider did not issue or file with the IRS Forms 1099 for consultants paid during the period July 1, 1985 through June 30, 1986.

3. The provider's audited financial statements did not contain a compliance section giving independent assurance that its financial recordkeeping practices were in compliance with Attachment C of the Department of Social Services (DSS) Standard Purchase Agreement.

4. The provider reported an excessive number of actual units delivered on the RSC 1100 Cost Report for fiscal year 1986.

5. The method used by the provider to allocate total expenses to each contract was misleading. When compared with the amounts billed, it appeared that the provider overbilled the preschool contract. However, it also appeared that the provider, as a whole, incurred $47,000 in costs that were not reimbursed under either contract. These record-keeping conditions violated the EOHS General Conditions.

6. The provider's books and records did not identify and record expenditures by program or contract. This was a violation of EOHS General Conditions.

7. The Treasurer of the corporation was paid $250 a month as a consultant to the provider on accounting and financial matters. This condition presented a conflict of interest.

8. The financial statements of Little Folks Community Day Care Center, Inc., audited by Caputo and Company, indicated a $122,059 fund balance as of June 30, 1986. This balance included excess income over expenses of $34,285 which accrued during fiscal year 1986.

   Total revenues and support received by the provider for this same period amounted to $410,059, of which $341,941 was supported by Department of Social Service contracts. Of the $52,627 generated from other fee for service payments, $28,660 was from the Department of Education and $23,967 from tuition payments. Additionally, $15,491 was received from private donations.

   EOHS agency revenues received by the provider, $341,941, represented 83 percent of total income, while other fee payors represented twelve percent of total income. The remaining revenues represented five percent of total income.

EOHS/OAA requested that DSS enter into an administrative agreement with Little Folks Community Day Care Center, Inc., to address findings (1), (3), (5), (6) and (7) in accordance with the response as contained in the report. In addition, EOHS/OAA has requested RSC to review finding (4) for determination of appropriate action and finding (8) to determine what effect, if any, such finding may have on the rates of reimbursement to the provider. EOHS/OAA has reported finding (2) to the Internal Revenue Service and the Department of Revenue for determination of appropriate action.

Provider Name: Little Scholars' Workshop, Inc.
30 Harvard Street
Dorchester, MA 02124

Audit #: C-444-86

The Little Scholars' Workshop, Inc., provided educational day care and after school services in the Dorchester area during the audit period. The provider contracted with the Department of Social Services and the Department of Education and was audited for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. Many significant weaknesses were noted in the provider's internal controls.

2. The provider did not maintain expenses by program, and also failed to maintain a cash receipts journal, cash disbursements journal, or a general ledger on a monthly basis.

3. The Rate Setting Commission's Form 503 reviewed for audit purposes (Day Care Center Ratio Compliance Report), did not use actual costs.

4. The provider's budget included funding for health insurance for employees at a cost of 10% of total wages or $20,198. However, no health insurance was paid for or provided by the provider.

5. As of June 26, 1986, the provider had failed to file an Annual Report for FY 1985 with the Secretary of State's Office.

6. The provider's by-laws did not contain a dissolution section as required by the Internal Revenue Service.

7. During the audit period, the provider was in the process of paying the Internal Revenue Service (IRS) and the Massachusetts Department of Revenue (DOR) for delinquent payroll taxes. The provider paid $6,118. to DOR for taxes unpaid during the period 2/84 thru 10/84 leaving a balance of $1,916. as of 2/85. Furthermore, the provider paid $30,000 of a total negotiated settlement of $40,000 to the IRS for taxes unpaid during the period 10/80 to 3/82.

8. The audited financial statements of the provider for FY 1985 showed a liability of $13,068. for state payroll taxes as of June 30, 1985. However, after a review of the CPA's workpapers, auditors were unable to determine if that amount was accurate. The provider's staff was unaware of any liability to the Commonwealth for taxes, notwithstanding finding (7) above.

9. The provider did not maintain a fixed asset inventory which segregated equipment purchased with public funds from equipment purchased with private or donated funds as required by the EOHS General Conditions.

10. The provider's financial statements reported land and buildings at their appraised value rather than actual cost as required by generally accepted accounting principles.

11. A former member of the provider's board of directors formed his own transportation company (Merry-Go-Round Transportation) and delivered transportation services to the provider. This related party transaction was not revealed on the Attorney General's Form PC or the IRS Form 990, as required.

12. Overtime was not paid at time and a half. Instead, employees were allowed compensation time to offset extra hours worked. In our testing, we saw no employee working 80 hours during a two week period. Therefore, compensation time was used when employees worked less than eight hours one day and made up the time the following day. Massachusetts General Law, Chapter 151, Section 1A, prohibits using regular compensation time as a substitute for paying or providing compensation time at time and a half for overtime worked.

13. The provider did not have a general liability umbrella insurance policy.

14. The financial statements of Little Scholars' Workshop, Inc., audited by Yang I. Kim, Certified Public Accountant, indicated a $30,229 fund balance as of June 30, 1985. However, as indicated in Finding 10, the fund balance was misstated by $20,000 due to reporting the building and land at appraised value. This balance included excess income over expenses of $37,086 which accrued during fiscal year 1985.

Total revenues received by the provider for this same period amounted to $334,303, of which $204,117 was supported by DSS contracts. Of the $128,101 generated from other fee-for-service payments, $32,511 was from a Department of Education contract, $61,609 from a Child Care Resource Center, Inc., contract, and $33,981 from parent fees and tuitions. Additionally, $2,085 was received from donations.

EOHS agency revenues received by the provider, $204,117, represented 61 percent of total income, while other fee payors for service represented thirty-nine percent of total income. The remaining revenues represented less than one percent of total income.

EOHS/OAA requested that DSS negotiate an administrative agreement with Little Scholars' Workshop, Inc., which addresses findings (1), (2), (3), (7), (9) and (13) and also addresses recovery of $20,198. from finding (4). EOHS/OAA also requested that RSC review findings (4), (7), (10), (11), and (14), and determine what effect, if any, such findings may have on the rates of reimbursement to the provider. In addition, the Secretary of State's Office has been requested to review finding (5), the Attorney General's Office, Division of Public Charities has been asked to review finding (11), and the Massachusets Board of Public Accountancy has been asked to review findings (8) and (10) and to take appropriate action. The Department of Labor and Industries has been asked to review finding (12), The Office for Children has been asked to review finding (13) and the EOHS/OCM has been asked to review findings (7) and (8) and take whatever action is deemed appropriate. Furthermore, the IRS has been asked to review findings (6), (9), and (11) and the Department of Revenue has been asked to review findings (7) and (9) to take whatever action is deemed appropriate. A satisfactory response from OFC was subsequently received.

Provider Name: Lynn Day Activity Center, Inc.
104 Woodman Street
Lynn, MA 01905

Audit #: 85-1080-4

Lynn Day Activity Center, Inc. (LDAC) provided services to mentally retarded adults in the greater Lynn area during the audit period. The provider contracted with the Department of Mental Health and the Department of Public Welfare and was audited by the Auditor of the Commonwealth for fiscal years 1983 and 1984. A summary of the audit findings included the following:

1. The provider accumulated $19,224 in excess contract revenue over expenses during fiscal year 1984 in the two unit rate contracts reviewed. The excess contract revenue was due primarily to staff vacancies.

2. The provider failed to disclose $6,000 in additional revenue in the Rate Setting Cost Report for fiscal year 1984. This was a violation of Rate Setting Regulations.

EOHS/OAA requested the Department of Public Welfare to refer finding (1) to the Rate Setting Commission to determine what effect, if any, such finding has on the rates of reimbursement to the provider. DPW was asked to review finding (2) in accordance with provider's response and determine if any action is appropriate.

Provider Name: Massachusetts Mental Health Research Corporation, Inc.
74 Fenwood Road
Boston, MA 02115

Audit #: 85-1080-4

Massachusetts Mental Health Research Corporation, Inc. (MMHRC) provided mental health services to individuals and families in the Greater Boston area through community based conseling and treatment programs, and also trained individuals entering the mental health field, during the audit period. The provider contracted with the Department of Mental Health, Department of Education and Department of Social Services and was audited by the Auditor of the Commonwealth for fiscal years 1983 and 1984. A summary of the audit report findings included the following:

1. The provider paid the treasurer's assistant $314 per month for child care expenses totalling $7,400 during the audit period. Since this fringe benefit was not available to all employees, these costs were disallowed pursuant to Rate Setting Regulations.

2. The provider's treasurer granted himself two loans from agency funds, totalling $7,000 during the audit period. These two loans were a misuse of corporate funds budgeted for program-related costs. The OSA verified that these funds, plus some interest on one loan, had been fully repaid.

3. The provider paid a full time DMH employee to prepare cost reports, program budgets, and to perform other accounting and related fiscal duties. These duties presented a direct conflict of interest between the DMH employee and the provider pusuant to MGL Chapter 268A. This finding was referred to the State Ethics Commission by the OSA.

EOHS/OAA requested that DMH enter into an administrative agreement with the provider that addresses finding (2). In addition, the administrative agreement should address the recovery of $7,400 noted in (1). DMH was also directed to request a written response from the SEC regarding its actions concerning finding (3), and to report the results of that inquiry to EOHS/OAA. It should be noted that significant findings concerning related party transactions between this provider and another provider, Family Day Care, Inc., were referred to DSS for resolution.

Provider Name: Mental Health Association Marlborough-Westborough Area, Inc.
31 Springhill Avenue
Marlborough, MA

Audit #: C-456-86

Mental Health Association Marlborough-Westborough Area, Inc., maintained a mental health clinic that served the towns of Marlborough, Northborough, Southborough, Westborough, and Hudson during the audit period. The provider contracted with the Department of Mental Health and the Department of Public Health and was audited for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. The provider incurred general and administrative expenses of $413,519 for the year ended June 30, 1985. This amount represented 29.71 percent of the total operating expenses of the provider. This percentage was inordinately higher than that of the average voluntary health and welfare organization, and was not in keeping with the "prudent buyer" concept embodied in Rate Setting Regulations.

2. The provider did not allocate expenses by contract as required. In its response, the provider agreed to begin to maintain its records in accordance with this requirement in fiscal year 1988.

3. The financial statements of Mental Health Association, Marlborough-Westborough Area, Inc., audited by Creelman and Smith, PC, CPA, indicated a $120,278 fund balance as of June 30, 1985, comprised of a $24,909 unrestricted fund, a $43,126 restricted fund, and a Furniture and Equipment Fund of $52,243. The fund balance included total excess expenses over income of ($38,311) which accrued during fiscal year 1985.

   Total revenues and support received by the provider for the period amounted to $1,353,567, of which $777,617 was generated by the Department of Mental Health and the Department of Public Health contracts and support. Of the $536,131 from other fee for service payments, $144,938 was received from communities and $391,193 from third parties. Additionally, $39,819 was received from donations, interest, and other income.

EOHS agency revenues received by the provider, $777,617, represented fifty-seven percent of the total income, while other fee payors for service represented forty percent of total income. The remaining revenues represented three percent of total income.

EOHS/OAA requested that DMH negotiate an administrative agreement with Mental Health Association Marlborough-Westborough Area, Inc., which addresses finding (2) and which provides justification for the inordinately high general and administrative costs noted in finding (1). EOHS/OAA also requested that the RSC review finding (3) and determine what effect, if any, such finding may have on the rates of reimbursement to the provider, and that the RSC should review finding (1) and determine the appropriateness of establishing rate ceilings for such expenses. A response was subsequently received from DMH which adequately addressed findings (1) and (2).

Provider Name: Montachusett Opportunity Council, Inc.
66 Day Street
Fitchburg, MA 01420

Audit # 86-1080-9

Montachusett Opportunity Council, Inc. (MOC) provided child care, nutrition for the elderly, energy conservation, health screening and education services to citizens of Northern Worcester County during the audit period. The provider contracted with the Department of Social Services and was audited by the Auditor of the Commonwealth for fiscal years 1984 and 1985. A summary of the audit report findings included the following:

1. The provider was reimbursed a total of $16,880 for 1,259 non-service days. Non-service days are days during which children do not attend the program because they are not scheduled for day care services.

    A. In basic day care MOC billed DSS 1,100 non-service days for a total of $14,125. DSS does not allow for this type of reimbursement. In addition, MOC did not forward the direct-care portion of these reimbursements to its independent service providers.

    B. Under the supportive day care program, MOC billed DSS $2,755 for 159 non-service days. These reimbursements are allowed by DSS, but MOC did not forward the direct day care portion of $1,364 to its independent service providers.

2. MOC was reimbursed $167,004 for absent and vacant day care slots during fiscal years 1984 and 1985. Of that amount, $97,598 represented the portion for direct care services and the remaining $69,406 covered administrative and overhead expenses incurred by MOC. In addition to the $69,406, MOC retained $20,550 of the $97,598 provided for direct care services. This was a violation of DSS contract requirements.

EOHS/OAA requested that DSS enter into a written administrative agreement with Montachusett Opportunity Council, Inc. which addresses the recovery of $14,125 noted in finding (1) and which verifies that MOC has paid $21,914 noted in (1) and (2) to its independent providers.

Provider Name: Mt. Tom Institute for Human Services, Inc.
507 Apple Street
Holyoke, MA 01040

Audit #: 86-1080-10

Mt. Tom Institute for Human Services Inc., operated mental health and retardation programs serving the Holyoke/Chicopee area during the audit period. The provider contracted with the Department of Mental Health and was audited by the Auditor of the Commonwealth for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. The assistant executive director granted himself loans totalling $7,658, from corporate funds, during the period from July 1983 though April 1985. These loans were made without the knowledge or approval of the Board of Directors and without any written provision for repayment, which was a misuse of corporate funds and in violation of Mt. Tom's Articles of Organization.

2. Auditors noted that, during the audit period, consultants billed, and were reimbursed $348 for services not performed. Some consultants charged Mt. Tom for overlapping hours of service, while others received payment for duplicate billings. In its response the provider stated it would recover this money from the consultants and remit the funds to the Department of Mental Health.

3. The provider overbilled DMH a total of $624 for housekeeping expenses. In its response the provider stated that it would reimburse DMH for these overbillings.

EOHS/OAA requested that DMH enter into an administrative agreement with the provider which addresses finding (1) and the recovery of $972 in funds noted in findings (2) and (3) in accordance with the provider's response as contained in the report.

Provider Name: Necessities/Necesidades, Inc.
Northampton, MA

Audit #: 0-458-86

Necessities/Necesidades, Inc., operated two programs for women who experienced emotional and/or physical abuse, during the audit period. The provider contracted with the Department of Social Services and was audited for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. Many significant weaknesses were noted in the provider's internal controls.

2. As of April 22, 1986, the provider had failed to file an Annual Report with the Secretary of State's Office for fiscal year 1985. In its response the provider stated that it had since filed.

3. The provider failed to maintain a fixed asset list which segregated state-owned equipment from assets donated or purchased with other funds.

4. The provider's financial records did not provide for the allocation of expenses and revenues by contract as required. In its response the provider stated that it would correct this deficiency.

5. The provider's by-laws and articles of organization did not contain a dissolution section as required.

6. The audited financial statements prepared for the fiscal year 1985 did not include a compliance segment as required.

7. The same financial statements did not include a statement of functional expenses.

8. Program expenses as stated in the financial statements did not agree with program expenses per the general ledger.

9. The provider failed to issue Federal Income Tax Forms 1099 to two consultants who earned in excess of $600 during fiscal year 1985.

10. The provider paid employees compensation time and did not maintain accurate time records to support this expenditure. In its response the provider stated that it no longer offered compensation time to its employees.

11. Salaries reported in the RSC 1100 Cost Report, the financial statements, and the general ledger did not agree with salaries reported per the IRS Tax Forms 941.

12. Payroll taxes and employee insurance expenses were reported in the financial statements, the general ledger, and the RSC 1100 Cost Report as three different amounts.

13. The provider purchased consultant services from a certified public accountant who also served as the treasurer of the Board of Directors. This related party relationship was correctly identified in Schedule 6 of the RSC 1100 cost report but was not disclosed on Schedule 25 as required.

14. Auditors noted a few instances where the provider billed for units of service not allowed by DSS contracts.

15. The financial statements of Necessities/Necesidades, Inc., audited by Mark A. Goldberg, Certified Public Accountant, indicated a single fund balance of $21,000 as of June 30, 1985. This balance included excess support and revenue over expenses of $9,083 which accrued during fiscal year 1985.

    Total revenues and support received by the provider for this same period amounted to $104,963 of which $68,617 was supported by the Department of Social Services contracts. Of the $20,877 generated from other fee for service payments, $6,100 was from local cities and towns, $6,277 was from Hampshire County, and $8,500 was from a private grant. Additionally, $15,469 was received from contribution, benefits, fundraising, and interest income.

    EOHS agency revenues received by the provider $68,617, represented 65 percent of total income, while other fee payors for service represented 20 percent of total income. The remaining revenues represented 15 percent of total income.

EOHS/OAA requested that DSS enter into a written administrative agreement with Necessities/Necesidades, Inc., which addresses findings (1), (3), (4), (6), (7), (8), (10), (11), (12), and (14) in accordance with the provider's response as contained in the report. In addition, the Secretary of State's Office was requested to address finding (2) and the RSC was requested to review findings (11), (12), (13), and (15) to determine what effect, if any, such findings may have on the rates of reimbursement to the provider and to determine what other action may be appropriate. Findings (5), (9), and (11) were also referred to the Internal Revenue Service and findings (7), (8), (11), and (12) were referred to the Massachusetts Board of Public Accountancy for determination of appropriate action. Findings (9) and (11) were reported to the Department of Revenue.

Provider Name: Newton-Wellesley Hospital, Inc.
2014 Washington Street
Newton Lower Falls, MA 02162

Audit #: C-463-86

Newton-Wellesley Hospital, Inc., maintained several kinds of services, including crisis intervention, after-care, out-patient counseling, and day treatment, during the audit period. The provider contracted with the Department of Mental Health and was audited for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. As of the completion of the audit field work (September 10, 1986), the Department of Mental Health had not performed a quality assurance review of the after-care program since January 24, 1983. In addition, the other three programs had not been reviewed for at least three years.

2. In the process of reviewing employee qualifications, it was noted that two employee files could not be located.

3. Several client files did not contain progress notes to support billing documentation.

4. In the crisis intervention and the after-care programs, the provider automatically used 1/52 of total salary expenses and multiplied the number by the number of weeks in the month for billing purposes on cost reimbursement contracts. In both instances, the amount billed was less than the actual cost incurred.

5. An analysis was performed to compare amounts budgeted in the DMH contracts to actual support and expenses per the general ledger. This analysis revealed that expenses exceeded income by ($125,993).

6. During a review of client files it was revealed that certain eligibility documents were either missing or not completed properly.

7. In at least one month, client fees were not deducted from DMH invoices. During the one month sampled, this amount was $772.

8. Invoices submitted for May and June of 1985 for the crisis intervention contract could not be located.

9. The financial statements of Newton-Wellesley Hospital, Inc., audited by Touche Ross and Company, indicated a $23,639,861 fund balance as of September 30, 1985. This balance included excess income over expenses of $2,228,547 which accrued during fiscal year 1985.

   Total revenues received by the provider for this same period amounted to approximately $59,308,768 of which $306,930 was supported by Department of Mental Health contracts.

   It should be noted that the financial statements were prepared based upon hospital operations as a whole and, therefore, did not include detail concerning other payors such as local cities, and non-EOHS agencies, etc.

   EOHS agency revenues received by the provider, $306,930, represented .005 percent of total income received by the provider.

EOHS/OAA requested that DMH negotiate an administrative agreement with Newton Wellesley Hospital, Inc., which addresses findings (1), (2), (3), (4), (5), (6), (7), and (8). EOHS/OAA also requested that the RSC review finding (9) and determine what effect, if any, such finding may have on the rates of reimbursement to the provider.

Provider Name: Northampton Center for Children and Families, Inc.
78 Pomeroy Terrace
Northampton, MA 01060

Audit #: 0-351-86

Northampton Center for Children and Families, Inc., operated three programs including residential services, education services, and an out-patient mental health clinic during the audit period. The provider contracted with the Departments of Mental Health and Social Services and was audited for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. Two minor weaknesses were noted in the provider's internal controls.

2. The provider was over-reimbursed by $6,920 in one tax expense line item by DMH.

3. The provider was over-reimbursed by $5,716 for fringe benefits by DMH.

4. During fiscal year 1985 the provider overexpended several line items by a total of $10,669, without a contract amendment.

5. The provider paid $11,732 for employee bonuses and resulting tax increases with DMH funds. These costs were not included in the DMH contract budget as required.

6. The DMH contract budget, submitted by the provider, and approved by the DMH Area Office, allowed a line item expense of $10,885 for previously reimbursed vacation and holiday time titled "accrued benefits". This practice was also documented in an audit conducted in 1981 by EOHS and has continued through the current fiscal year contract.

7. The provider improperly allocated general and administrative expenses resulting in excessive costs being charged to the DMH contract and certain line items being overexpended.

8. During fiscal year 1985 the provider leased equipment and two vehicles from a related party, New Directions Leasing, Inc. The amount charged to the provider by the related party was not calculated in accordance with RSC Regulations resulting in excessive costs of $6,109 charged to DMH.

9. The provider loaned funds to the same related party for which no formal loan agreement was maintained. Auditors verified that all loans had been repaid.

10. The provider reported actual service units of 7,665 on the RSC 1100 Cost Report filed for fiscal year 1985. Actual service units provided were 6,775.

11. The audited financial statements, prepared by the provider's CPA's, did not reflect the value of $143,137 received in in-kind donations.

12. During a visit to residential sites, auditors noted that living areas in two adolescent homes were not clean and that state-owned furnishings and equipment were in need of repair.

13. The language of the dissolution section contained in the by-laws and the Articles of Organization was not in accordance with Massachusetts General Laws, Chapter 180, Sub-Section 11A.

14. The DMH contract submitted for agency review was not signed or dated by a representative of the funding agency.

15. The Use of Space Agreement submitted with the RSC 1100 Cost Report was not signed or dated by a state official.

16. The financial statements of Northampton Center for Children and Families, Inc., audited by KMG Main Hurdman, Certified Public Accountants, indicated a $35,579 fund balance as of June 30, 1985, comprised of a $19,920 DMH contract fund, a ($1,511) new directions school fund deficit, a $6,433 clinic fund, a $0 Title I grant 89-313 fund, a $10,737 other revenues and expenses fund and a $0 federal food reimbursement fund. This balance included excess income over expenses of $5,400 which accrued during fiscal year 1985.

    Total revenues and support received by the provider for this same period amounted to $1,036,568, of which $727,319 was generated by Department of Mental Health and Social Services contracts and support. It should be noted that the financial statements do not include that value of in-kind donations noted in finding (11). Of the $304,714 generated from other fee for services payments, $251,061 was from local education authorities of cities and towns, $12,633 from Massachusetts Department of

Education, Division of Special Education, $11,514 from Massachusetts Department of Education, Bureau of Nutrition (federal food reimbursement), and $29,506 from Medicaid. Additionally, $4,535 was received from donations, miscellaneous sources, and interest.

EOHS agency revenue received by the provider, $727,319, represented seventy percent of total income, while other fee payors for service represented twenty-nine percent of total income. The remaining revenues represented one percent of total income.

EOHS/OAA requested that DMH enter into an administrative agreement with Northampton Center for Children and Families, Inc., which addresses findings (1), (7), (10), (11), (12), (14), and (15) in accordance with the provider's response, and also addresses the recovery of $45,922 noted in findings (2), (3), (4), (5), and (6). In addition, DMH Central Office was requested to review the Area Office's action regarding findings (4) and (6) and the questionable use of funds noted in (9) and report to EOHS/OAA the results of that review. EOHS/OAA requested the Attorney General's Office, Public Charities Division, to address finding (13) and the RSC to review findings (4), (5), (7), (8), (10), and (16) to determine what effect, if any, such findings may have on the rates of reimbursement to the provider. EOHS/OAA also referred finding (11) to the Massachusetts Board of Public Accountancy.

Provider Name: Prospect House, Inc.
129 Lincoln Street
Worcester, MA 01605

Audit #: 85-1080-4

Prospect House, Inc., a multi-service, non-profit neighborhood center, served the social and therapeutic needs of low-income individuals in the Worcester area during the audit period. Its services included day-care, foster care, elderly out reach, residential and out-patient alcoholism counseling and cultural enrichment programs. The provider contracted with the Department of Public Health (DPH) and the Department of Social Services (DSS) and was audited by the Auditor of the Commonwealth for fiscal years 1983 and 1984. A summary of audit report findings included the following:

1. The provider failed to verify the status of client income in order to determine program eligibility.

2. The provider overbilled the Commonwealth $103 due to the miscalculation of client fees.

EOHS/OAA requested DSS to negotiate a written administrative agreement with the provider which addresses finding (1). In addition, the administrative agreement should address the recovery of $103 overbilled to the Commonwealth noted in finding (2).

Provider Name: The Psychological Center, Inc.
488 Essex Street
Lawrence, MA 01840

Audit #: 86-1080-13

The Psychological Center, Inc., (TPC) offered various services including drug treatment and prevention, psychiatric counseling, residential programs for the mentally handicapped, and crisis intervention during the audit period. The provider contracted with the Departments of Mental Health, Public Welfare and Public Health and was audited by the Auditor of the Commonwealth for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. In July of 1984, a related party of the provider, Merrimac Valley Support Systems, Inc. (MVSS) purchased furniture and equipment for a new program funded by the Department of Public Health. This property was then leased to TPC, and under that lease, MVSS recovered the entire purchase price of the property ($25,000) over six month period. The funds used to lease that property were paid through a DPH cost reimbursement contract. Although the property was in effect purchased with DPH funds, title vested with MVSS and not the Commonwealth.

2. This same program was initially funded by a six-month cost-reimbursement contract with DPH's Division of Alcoholism. Auditors noted that this program incurred $47,503 in salary expenses during the first six months of operation despite not serving a single client. Program officials stated that the staff was brought on to perform "start up" duties including hiring personnel. Auditors questioned the hiring of many of the direct care personnel prior to service delivery and concluded that the provider could have hired less staff for that six-month period at a savings of $30,635 to the Commonwealth.

EOHS/OAA requested that DPH enter into an administrative agreement with The Psychological Center, Inc. which addresses conveyance of title to the property noted in finding (1) to the Commonwealth and addresses finding (2) in accordance with the providers response and the Auditor's recommendation as contained in the report.

Provider Name:	Roger-Pierce Children's Center, Inc. 75 Pleasant Street Arlington, MA 02174
Audit #:	85-1080-4

The Roger-Pierce Children's Center, Inc. (RPCC) served children from different backgrounds in a suppportive and integrated program that met individual needs while encouraging the intellectual and social skills necessary for a smooth transition to grade school. RPCC served families in Arlington, Cambridge and nearby communities during the audit period. The provider contracted with the Department of Social Services and was audited by the Auditor of the Commonwealth for fiscal years 1983 and 1984. A summary of audit report findings included the following:

1. The provider did not maintain time and attendance records to support $305,071 in personnel costs for fiscal years 1983 and 1984. This was a violation of the EOHS General Conditions.

2. The provider did not maintain adequate documentation to support consultant reimbursement of $3,002 during fiscal years 1983 and 1984. This was a violation of the EOHS General Conditions.

EOHS/OAA requested DSS to enter into an administrative agreement with the provider to address finding (1). In addition, DSS has been instructed to examine the supporting documentation cited in the provider's response to finding (2), and determine if it meets the required criteria. If this supporting documentation is unavailable or insufficient, the administrative agreement should address the recovery of $3,002 noted in (2).

Provider Name: Spectrum House, Inc.
155 Oak Street
Westboro, MA 01581

Audit #: 85-1080-4

Spectrum House, Inc., a comprehensive drug detoxification and rehabilitation center, offered inpatient treatment for individuals physically dependent on drugs during the audit period. The provider contracted with the Department of Public Health (DPH) and was audited by the Auditor of the Commonwealth for fiscal years 1983 and 1984. A summary of the audit report findings included the following:

1. A potential conflict of interest existed within the Board of Directors of the provider, because an Assistant Superintendent in the Bureau of State Office Buildings, who served as a member of Spectrum House's Board, helped the provider purchase three state buildings. The OSA has referred this matter to the State Ethics Commission.

EOHS/OAA requested that DPH pursue this finding with the State Ethics Commission to determine what action has been taken, and to report the results in writing to EOHS/OAA.

Provider Name: To Your Health, Inc.
663 Main Street
Southbridge, MA 01550

Audit #: 85-1080-4

To Your Health, Inc. (TYH) provided health education information regarding alcohol abuse to residents in central Massachusetts during the audit period. TYH utilized consultation, training, and other forms of technical assistance to individuals, agencies, schools, community groups, and businesses. The provider contracted with the Department of Public Health (DPH) and was audited by the Auditor of the Commonwealth for fiscal years 1983 and 1984. A summary of the audit report findings included the following:

1. One weakness was noted in the provider's internal controls.

2. During fiscal years 1983 and 1984, TYH, Inc., double-billed the Commonwealth $630 for general operating expenses.

EOHS/OAA requested that DPH enter into an administrative agreement with To Your Health, Inc., to address finding (1) as contained in the audit report. In addition, the administrative agreement should address the recovery of $630 double-billed by the provider as noted in finding (2).

Provider Name: Western Massachusetts Legal Services, Inc.
145 State Street
Springfield, MA 01103

Audit #: 0-499-86

Western Massachusetts Legal Services, Inc., operated three programs providing legal services to the elderly and poor and providing community education on substance abuse prevention for youths during the audit period. The provider contracted with the Departments of Public Health and Social Services and was audited for the fiscal year ended June 30, 1985. A summary of the audit report findings included the following:

1. A few minor weaknesses were noted in the provider's internal controls.

2. The personnel policies of the provider allowed vacation and bereavement leave which may have exceeded those allowed under RSC Regulations.

3. The provider's books and records did not allow for the segregation of expenses by the one Department of Social Services unit rate contract, in violation of EOHS General Conditions and DSS contract requirements.

4. For some units of service billed to the DSS contract, auditors were unable to verify delivery of service from provider records. In its response, the provider stated that it would institute records to facilitate verification of service delivery.

5. The financial statements of Western Massachusetts Legal Services, Inc., audited by Paul X. Metevia, Jr., Certified Public Accountant, indicated a $152,641 fund balance as of December 31, 1985, comprised of a $82,486 operations fund and a $69,975 property fund. This balance included excess income over expenses of $46,176 which accrued during fiscal year 1985.

Total revenues received by the provider for this same period amounted to $1,363,673, of which $111,062 was supported by Departments of Public Health and Social Services contracts. Other fee for service payments of $1,129,289 were from Legal Service Corporation grants, Home Care contracts, and Massachusetts Legal Assistance. Additionally, $123,322 was received from attorney fee income, donations, interest, and other income.

EOHS agency revenue received by the provider, $111,062, represented eight percent of total income while other fee payors for service represented eighty-three percent of total income. The remaining revenues represented nine percent of total income.

EOHS/OAA requested that DPH and DSS enter into separate written administrative agreements with Western Massachusetts Legal Services, Inc., in which DPH addresses finding (1) and DSS findings (3) and (4), in accordance with the provider's response as contained in the audit report. Also, EOHS/OAA requested that the RSC review findings (2) and (5) to determine what effect, if any, such findings may have on the rates of reimbursement to the provider.

SECTION X

GLOSSARY OF TERMS

Audit

An objective and independent critique of management operations and performance. Governmental auditors examine not only books, records, and financial statements, but also review for (1) compliance with applicable laws and regulations, (2) economy and efficiency of operations, and (3) effectiveness in achieving program results.

Conflict of Interest

A conflict, for an individual, between loyalties owed to more than one source. Conflicts for state employees or persons paid under "03" contracts with state agencies are governed by G.L. c.268A, under the jurisdiction of the State Ethics Commission. Conflicts for employees of private organizations typically arise when the duties owed to the organization and/or its clients conflict with the financial interests of the individual.

Compliance with Terms of the Contract

EOHS has issued approved standard contract forms for all "07" contracting, and annually promulgates the EOHS General Conditions which are incorporated into the contracts (see below). Further, some contracting agencies have required that additional contracting conditions be included in the terms of the contract (e.g., DMH and DSS Contract or Audit Manuals or Guidelines). All of these are included in the broad definition of the "services" which the Commonwealth is purchasing through the contract, and the contracting party is required to comply with each term by general contract law, enforceable in court if necessary.

EOHS General Conditions

A set of generally applicable standard contracting principles, promulgated by EOHS for each fiscal year pursuant to the authority granted in G.L. c.6A, S16, and incorporated into every contract entered into by any human services agency reimbursed through subsidiary accounts "03" and "07", object codes 393 and 394.

Excess Revenue Over Expenditure ("Surplus Funds," so-called)

Those revenues derived as a result of the provider organization being reimbursed by the Commonwealth in an amount greater than the actual costs reasonably related to providing the services which the Commonwealth is purchasing.

Excess Expense Over Revenue ("Deficit")

Those revenues derived as a result of the provider organization being reimbursed by the Commonwealth in an amount less than the actual costs reasonably related to providing the services which the Commonwealth is purchasing.

Financial and Compliance Audit

All Federal and most State and local governmental auditors (including EOHS/OAA staff) and contracted auditors (per the EOHS General Conditions) must adhere to the standards and procedures of Generally Accepted Government Auditing Standards (GAGAS) as promulgated by the Comptroller General of the United States. These Standards incorporate the AICPA industry standards and procedures and include additional standards and requirements. A financial and compliance audit would seek to determine, pursuant to these standards, (a) whether the internal financial statements of an audited entity present fairly the financial position and results of financial operations in accordance with Generally Accepted Accounting Principles (GAAP) and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements. In addition, the audit must report any material weaknesses encountered as a result of a study conducted of the organization's system of internal controls.

Fund Balance

Fund balance is a reflection of a non-profit organization's net worth (assets). This includes separately accounting for restricted and unrestricted resources. Restricted resources are either legally restricted by a donor or another outside party, or designated by the board for a specific purpose or use. Unrestricted resources are available for any legitimate use by the organization. When such resources, together with the related liabilities (debts) are accounted for separately, the separate set of accounts constitutes a fund, and the net assets in the fund are called the Restricted Fund Balance, or the Unrestricted Fund Balance. An organization may have several restricted and unrestricted funds. Total combined restricted and unrestricted fund balances taken as a whole comprise the organization's fund balance.

Internal Control Findings

Internal control findings are those audit findings which address material weaknesses in the organization's plan, and all of the methods and measures adopted by it to safeguard its assets. This plan should provide built-in checks on the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to managerial policies. Generally Accepted Auditing Standards (GAAS) and General Accepted Government Auditing Standards (GAGAS) require certified public accountants privately hired by the organization, as well as government auditors, to initially examine and evaluate an organization's system of internal controls. The standards also require the auditor to disclose to the organization any material weaknesses encountered in its systems.

IRS, DOR, DES Filing Requirements

Requirements applicable to corporations or other business organizations, and the individual employees of such organizations, imposed by federal or state laws and regulations, under the jurisdiction of the Internal Revenue Service, the Massachusetts Department of Revenue, or the Massachusetts Division of Employment Security, regarding reports, returns, or other documents which must be filed with such agencies.

Program Results Audit

A program results audit seeks to determine (a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved, and (b) whether the auditee has considered alternatives that might yield the desired results at a lower cost.

Public Charities Filing Requirement

Pursuant to G.L. c.12, Section 8F, all non-profit charitable corporations must annually file a form containing basic information with the Public Charities Division of the Department of the Attorney General. In addition, such organizations with gross annual revenues of $100,000 or more must annually file certified audited financial statements.

Rate Setting Commission Cost Reports

These documents report actual costs incurred by a provider organization during the fiscal year. The cost report states the financial position and results of financial operations of the organization by providing a balance sheet and financial statements and schedules illustrated on a program basis (one program may be funded by several contracts). The report also includes numerous detailed schedules of selected costs and program questionnaires with additional requirements, including the reporting of all related party transctions and tax payments. RSC uses the cost report to establish rates of payment based on historical cost and as reasonable justification for those rates established prospectively. All cost reports must be certified under the pains and penalties of perjury by an officer of the organization.

Related Party Transactions

Financial transactions (e.g., leases, sales, loans) between two or more individuals and/or organizations which are associated or affiliated by common ownership or control. These are not *per se* illegal, unless a conflict of interest results. However, disclosure of such transactions by non-profit corporations is required by the Rate Setting Commission, the Public Charities Division of the Department of the Attorney General, and the Internal Revenue Service, and failure to disclose as required may lead to imposition of appropriate sanctions. If such transactions are entered into in an attempt to obtain reimbursement disallowed in regulations of the Rate Setting Commission, then RSC can disregard the legal fiction and treat the related parties as if they were the same entity. For example, reimbursement prohibited by constitutional provisions (e.g., Anti-Aid Amendment, Credit Clause), such as principal payments on a mortgage on property owned by a private party, cannot legally be obtained by conveying the property to a second organization and "leasing" it back.